

Prince Edward Island Budget Highlights 2001-2002

Keeping the Balance in Uncertain Times



**Presented by
The Honourable Patricia J. Mella
Provincial Treasurer
March 29, 2001**



Prince Edward Island

Budget Highlights 2001-2002

Keeping the Balance in Uncertain Times

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Prince Edward Island

Budget Highlights 2001-2002

Keeping the Balance in Uncertain Times

Overview

Commitments

- Health Care
- Education
- Job Creation
- Community Development



The 2001 Budget continues on the path set by our previous budgets. Sensible programming and affordable tax reductions have placed the Province in a strong economic and financial position. Our continuing focus on health, education, communities, job creation and economic development has served the Province well.

A stylized, handwritten signature of Patricia J. Mella in dark ink.

Patricia J. Mella
Provincial Treasurer



Fiscal Responsibility

Budget Summary:

	2001-2002 Estimate (\$ millions)	2000-2001 Forecast (\$ millions)	2000-2001 Estimate (\$ millions)
Revenues:			
Revenue Sources	951.2	933.7	886.4
Special Projects Fund	<u>9.5</u>	<u>20.8</u>	<u>3.4</u>
Total Revenues	960.7	954.5	889.8
Expenditures:			
Operating	920.7	910.3	856.4
Special Projects Fund	9.5	20.8	3.4
Capital	<u>28.9</u>	<u>30.1</u>	<u>29.8</u>
Total Expenditures	959.1	961.2	889.6
Budgetary Surplus(Deficit)	1.6	(6.7)	0.2

Forecast 2000-2001:

Revenues:

Forecast revenues are up \$64.7 million from 2000-2001 Budget

Estimate. Major sources are:

Equalization	\$ 24.8 million
Special Projects Fund	\$ 17.4 million
Agriculture and Agri-Food Canada	\$ 13.6 million
Corporate Taxes	\$ 6.2 million

Expenditures:

Forecast expenditures have increased from 2000-2001 Budget

Estimate as follows:

Agriculture and Forestry	\$ 28.8 million
Ministry of Development	\$ 14.4 million
Health and Social Services	\$ 10.2 million
Transportation and Public Works	\$ 6.9 million
Education	\$ 6.0 million
Employee Benefits	\$ 3.0 million

The above expenditure increases include \$17.4 million from the Special Projects Fund.

Special Projects Fund

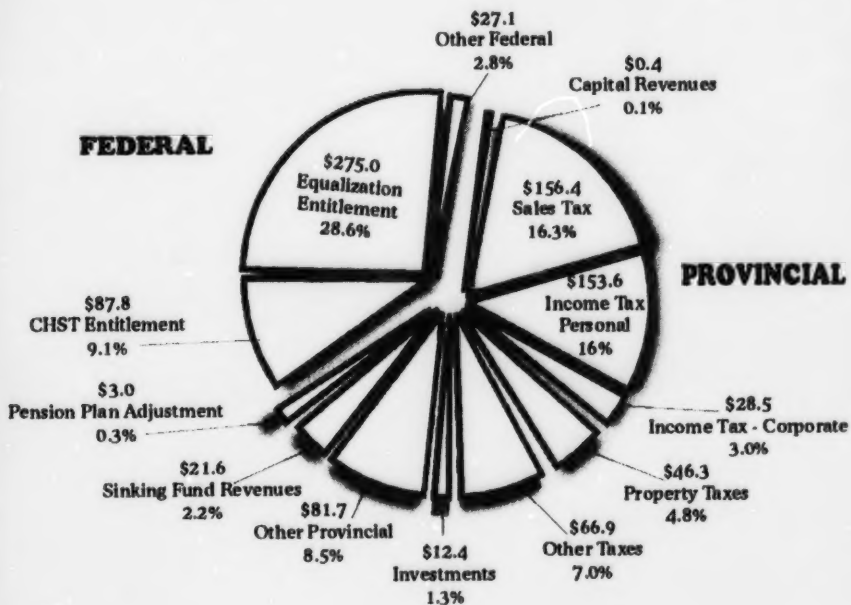
Special Projects Fund - Expenditures:	2001-02 Estimate (\$)	2000-01 Forecast (\$)	2000-01 Estimate (\$)
<u>Health Care Stabilization & Research Fund</u>			
Support of Front Line Staffing	3,500,000	3,382,100	3,382,100
Welfare Assistance Rates	-	1,066,400	-
Nurses Recruitment	-	1,174,100	-
New Physicians	-	555,000	-
Health Research	<u>100,000</u>	<u>165,300</u>	-
	3,600,000	6,342,900	3,382,100
<u>Development Fund</u>			
REDA	-	2,252,900	-
Business Development	275,000	7,425,000	-
Infrastructure Program	<u>1,700,000</u>	-	-
	1,975,000	9,677,900	-
<u>Education Stabilization Fund</u>			
Kindergarten	1,811,200	1,753,900	-
French School in Summerside	1,000,000	-	-
Technology Mentor Program	-	473,800	-
Computer Replacement	-	100,000	-
User Support	<u>350,000</u>	<u>150,000</u>	-
	3,161,200	2,477,700	-
<u>Community Development Fund</u>			
Community Development	-	934,100	-
Corporate Land Use Inventory	<u>192,800</u>	<u>108,700</u>	-
	192,800	1,042,800	-
<u>Sustainable Resource Support Fund</u>			
AERC	570,000	1,000,000	-
Environment Program	-	<u>213,500</u>	-
	570,000	1,213,500	-
Total Special Projects Fund	9,499,000	20,754,800	3,382,100

Where the Money Comes From

Revenues:

Total source revenues are up \$70.9 million from the 2000-2001 budget estimate.

2001-2002 Revenues Where the Money Comes From

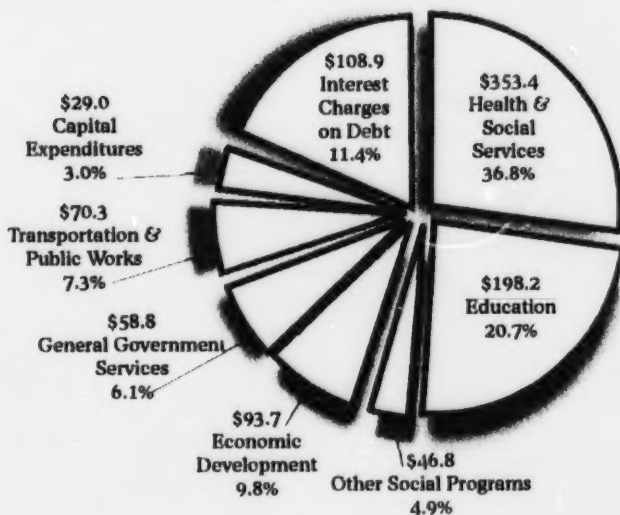


Where the Money Goes

Expenditures:

Total expenditures are up by \$69.5 million over 2000-2001 budget estimate.

2001-2002 Expenditures Where the Money Goes



Health and Social Services

Achievements

- Nine new physician positions were established and funded.
- Ten physicians relocated to Prince Edward Island, including seven family physicians and three specialists.
- Creation of 27 new permanent registered nurse positions.
- The tender process for the construction of the new East Prince Health Facility is currently underway. Funding of \$13 million is in the current budget.
- Contribution of \$2.5 million was made in 2000 to the equipment fund at the Prince County Hospital Foundation.
- \$1 million has been allocated to cover the social assistance rate increase announced in November 2000.

New Initiatives

- An integrated Provincial Autism Policy will be implemented.
- Proclamation of new child protection legislation.
- New P.E.I. Disability Support Program - New funding of \$1.5 million will be provided while current funding of \$5.4 million will be redirected toward this program.
- Medical (out-of-province) transport support program \$200,000.

Health and Social Services

New Initiatives *(continued)*

- Children's mental health program will be expanded to provide increase access to community mental health services throughout the Province.
- Enhancement in Family Health Benefits to increase assistance for lower income working families with the cost of prescription drugs.
- Implementation of a new Chronic Disease prevention program \$100,000.
- Increase funding to Provincial Mental Health Services \$500,000.
- Primary Care Redesign funding of \$700,000.
- Introduction of a new gambling treatment program.
- Funding increase of \$3,961,200 for operations of hospitals, manors and home care and support.
- Nursing Recruitment Strategy Funding - \$2,248,400.
- Seniors Drug Program funding increased by \$1,240,900
- Expansion of French Language Services funding by \$656,000
- Expansion of the O'Leary Community Hospital to include 10 additional long-term nursing care beds - \$895,000.
- Additional funding to private nursing homes.

Education

Achievements

- Implementation of publicly-funded kindergarten.
- Contributed \$1.4 million to cover June 30, 2000 operating deficits of Western School Board and Eastern School District.
- Contribution of \$1.2 million to school boards for increases in fuel costs in the current school year.
- Funding of \$100,000 to upgrade computers in intermediate schools.
- Completion of a school construction project at Summerside Intermediate and a new facility to replace the Fort Augustus School.

New Initiatives

- Kindergarten funding has been increased from \$1.7 million to \$3.2 million in Budget 2001.
- Additional investment of \$700,000 is being provided to school boards for staffing and funding, which includes \$140,000 for classroom programming materials.
- Government will be increasing the budget for technology support for the education system by \$250,000.
- Contribution of \$1 million to both UPEI and Holland College. This is the second year of a three year commitment to increase funding to these institutions.

Education

New Initiatives *(continued)*

- Despite declining school enrollments, the Province will invest \$900,000 to maintain the present number of approved teaching positions and fund an additional five positions.
- Extension of the new math curriculum \$216,000.
- Implementation of apprenticeship initiatives \$100,000.
- Contribution of \$100,000 to the Holland College Foundation for bursaries and scholarships.
- Assistance of \$125,000 to UPEI for alterations, renovations and equipment needs.
- Contribution of \$443,600 to fund additional teacher assistant positions.
- Atlantic Veterinary College funding increase \$418,500.
- Funding to Holland College of \$350,000 to support the operation of the Atlantic Welding and Fabrication Centre.
- Continuation of the School Construction Program with projects scheduled for Parkdale Elementary, Miscouche Consolidated and Kinkora Regional High.
- Additional resources to build on the existing capacity of Department and school system staff to address the needs of children with Autism Spectrum Disorder.
- \$61,000 investment in leadership training for school administrators.
- Contribution of \$2.2 million towards the construction of a new French school in Summerside.

Job Creation/Community Development

Additional funding provided as follows:

• Development program assistance	\$6,000,000
• Contribution to recreational facilities (to be contributed over 4 years)	\$6,000,000
• Canada-PEI Infrastructure Program	\$4,292,000
• Canadian Farm Income Program	\$4,000,000
• Highway Maintenance funding	\$2,000,000
• Seed Potato Quality Strategy	\$1,700,000
• Farm Safety Net Programs	\$1,000,000
• Agriculture and Environment Resources Conservation Program	\$1,000,000
• Tourism Investment Fund	\$800,000
• Provincial Parks Waste/Water Treatment Facilities	\$626,300
• New Visitor Information Centre in West Prince	\$525,000
• Sustainable Agriculture Initiatives	\$500,000
• Community Development Projects	\$500,000
• Drinking Water Strategy	\$270,000
• Contribution to French Culture Centre	\$160,000
• Tourism Marketing Enhancements	\$113,400
• Increase funding to PEI Museum & Heritage	\$112,400

Summary Statistics

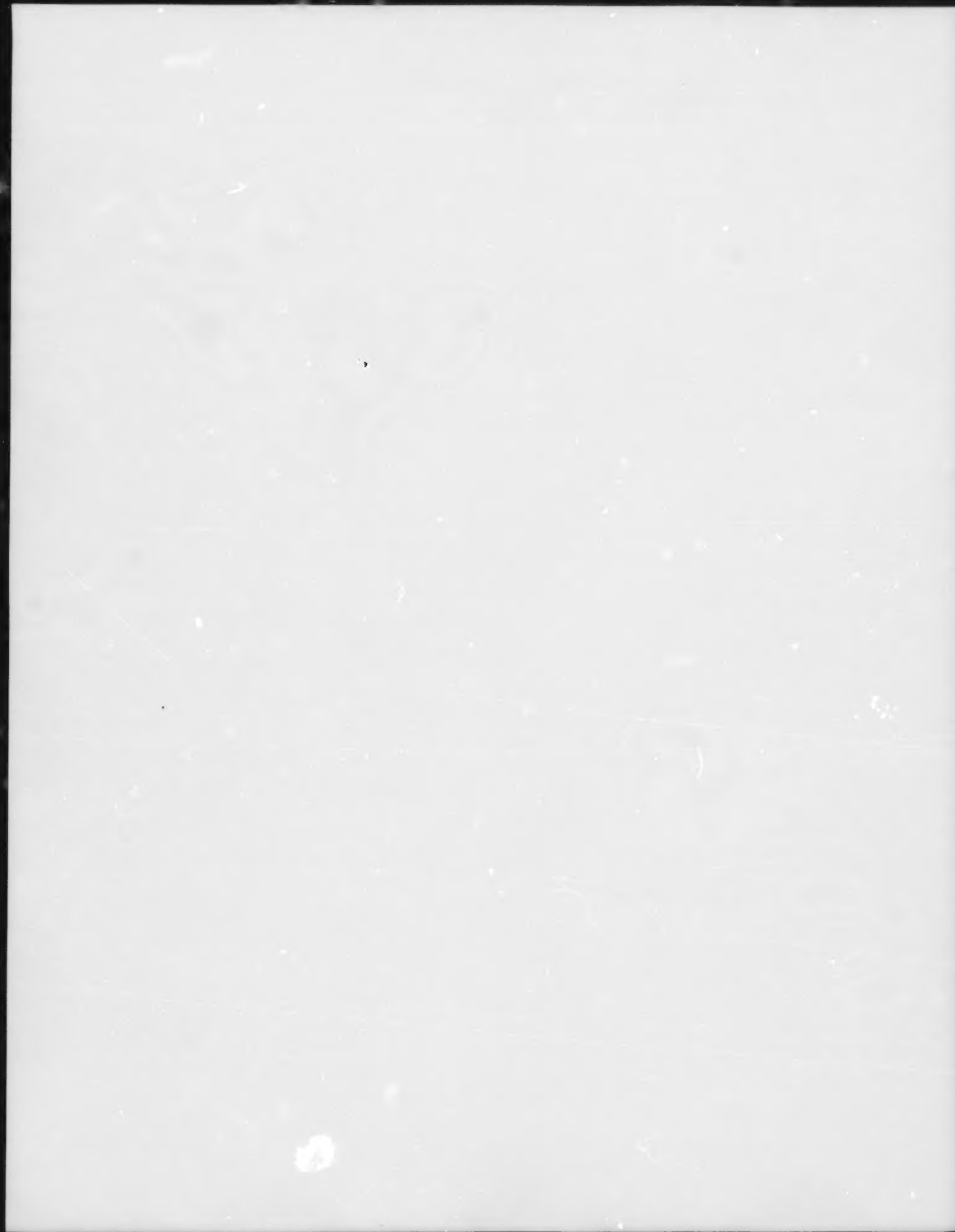
	1999	2000
Population on 1 July (in '000s)	137.6	138.9
Personal Income per capita* (\$)	20,283	20,864 ¹
<i>As % of Canadian personal income</i>	79.7	82.0
Employment (in 000's)*	61.3	64.5
Unemployment Rate - PEI (%)	14.4	12.0
<i>Unemployment Rate - Canada (%)</i>	7.6	6.8
CPI - Annual Change PEI (%)	1.2	4.1
<i>CPI - Annual Change (%) Canada</i>	1.7	2.7
Retail Trade (\$ millions)	1,156.6	1,239.8
New Motor Vehicle Sales (units)	4,802	4,997
Farm Cash Receipts (\$ millions)	352.3	326.0
Potato Receipts (\$ millions)	194.8	154.9
Lobster Landings (\$ millions)	88.8	85.8
<i>Lobster Landings (lbs - millions)</i>	18.4	19.1
Housing Starts (units)	616	710
Investment (\$ millions)*	517.3	534.3
Manufacturing Shipments (\$ millions)	1,109.0	1,182.6
Tourist Expenditures (\$ millions)	283.4	280.0
International Exports in Goods (\$ millions)	566.5	679.6
GDP at Market Prices (\$ millions)	2,994	3,207 ¹

* Revised Data

¹ Provincial Treasury estimate

Sources: Statistics Canada; CMHC;

PEI Fisheries, Aquaculture and Environment; Tourism PEI



BUDGET ADDRESS 2001

Province of Prince Edward Island Budget Address 2001



Presented by
The Honourable Patricia J. Mella
Provincial Treasurer
and
Chair of Treasury Board



Prince Edward Island

2001 Budget

Keeping the Balance in Uncertain Times

**Presented to
The Members of the Legislative Assembly of Prince Edward Island**

by

Honourable Patricia J. Mella

**Provincial Treasurer
and
Chair of Treasury Board**

March 29, 2001

The full text of the Budget Address is available on the Internet at the Prince Edward Island Information Centre located at the following World Wide Web address:

<http://www.gov.pe.ca/budget/>

Files containing the Budget Address, associated tables and supporting materials are also available for download in several popular word processor formats at the same address.

PRINCE EDWARD ISLAND 2001 BUDGET

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BUDGET PAPER A: BACKGROUND NOTES ON THE ECONOMY

BUDGET PAPER B: FEDERAL FISCAL ISSUES

BUDGET PAPER C: PERSONAL INCOME TAXES



THE BUDGET ADDRESS

Keeping the Balance in Uncertain Times

Madame Speaker, Members of the Legislative Assembly.

I am most pleased to present the Budget for the year 2001, whose theme is *Keeping the Balance in Uncertain Times*. I believe that this is a very appropriate message in view of the increasingly uncertain economic situation that is developing.

At the outset I wish to repeat the message of the 2000 Budget that our policies have placed the Island in a strong position as we begin the 21st Century.

We believe that the people of Prince Edward Island want straightforward, sound government that is cost effective and maximizes the use of the hard-earned tax dollars for which we are responsible.

In that respect, managing the Province is no different from managing the finances of any family household or business. You do what you can afford and you invest wisely in programs and projects that you judge will pay off in future years. I believe that we are now reaping the rewards of that approach.

Madame Speaker, it was not so long ago that Islanders were on the treadmill of out-of-control spending, rising deficits, rising borrowing and rising taxes. I wish to assure Islanders, that our Government, through this Budget, will stay committed to a fiscal strategy that will not go down that path.



"... our policies have placed the Island in a strong position as we begin the 21st Century."

Prince Edward Island

In contemplating this Budget, it became increasingly evident that financial markets and the economic times have become very turbulent compared to a year ago.

Madame Speaker, it is the Government's responsibility to keep a solid financial house.

I believe that our record in moving to a balanced fiscal position, accompanied by sensible programming and affordable tax reductions have placed us in a strong position to weather the potentially harsher conditions that might lie ahead.

Public Input

The Provincial Budget is developed on the basis of the best advice we can find and draw upon from many sources. But fundamentally we must interpret the needs and priorities of Islanders. An important aspect of the Budget process is to hear the views of our taxpayers directly and to act on ideas on what should be the Government's priorities. I was most encouraged by the many individuals and groups who took the time to come to advance Budget meetings to advise on steps that Government should be taking.

I can assure all Islanders, from all parts of the Province, and from all walks of life, that my door is always open. We listen and we care about your concerns and any observations that might be helpful to us in developing the Budget.

Madame Speaker, in the final analysis, the Provincial Budget involves use of taxpayers' money and as such it must be representative of the wishes of the people of the Province.

I believe that the Budget that I have the privilege of presenting this evening appropriately reflects the priorities of Islanders.

"...financial markets and the economic times have become very turbulent compared to a year ago."

"I believe that the Budget ... appropriately reflects the priorities of Islanders."

Economic and Fiscal Performance

The past year was marked by three developments: first, by extraordinary economic growth both nationally and locally; second, by rising financial pressures and mounting energy costs; and finally by the chaos created in our potato-producing sector from the closure of the US border to our products.

I will outline the events of the past year because they are important in understanding our finances.

The Canadian economy expanded by some 4.7 per cent in 2000, following significant growth in the previous four years. The Prince Edward Island economy increased by approximately 2.9 per cent, which marked three consecutive years of rapid expansion. Most significantly, employment on the Island was up by 5.2 per cent, the highest growth rate in Canada.

Madame Speaker, this is the greatest increase in employment the Province has ever witnessed in its history. There were on average 3,200 more employed persons in 2000 than 1999. The most recent statistics, for February 2001, show that there were 66,000 Islanders employed, the greatest number ever.

Madame Speaker, the provincial unemployment rate dropped to 12 per cent in 2000 as a result of the expanding job market and was 11.7 per cent last month. Economic growth was widespread as housing construction expanded, manufacturing grew and retailing jumped in value. Exports of Island products to other countries valued \$680 million, up from 1999 by 20 per cent. Retail sales increased by approximately 7 per cent and are now valued at \$1.24 billion.

This good news, however, did not extend to our traditional sectors. Tourism numbers were off slightly from 1999 consistent with a region-wide trend. Lobster volumes were up but lobster prices reduced the value of the catch consistent with a region-

"The past year was marked ... by the chaos created in our potato-producing sector from the closure of the US border to our products."

"Madame Speaker, this is the greatest increase in employment the Province has ever witnessed in its history."

Prince Edward Island

wide trend. But clearly the largest difficulty was faced by Island farmers with the value of potato sales down by 20 per cent. Even before the trade embargo, prices for North American potatoes were in a slump and obviously we are all aware of the consequences of the trade ban.

Given the strength of the manufacturing and services sectors, personal incomes were up sharply in 2000, and this was augmented by relatively strong growth in our population. Total labour income increased by 8.4 per cent on Prince Edward Island, surpassing national growth of 7.2 per cent.

During 2000, energy costs increased sharply around the world which impacted on the Island economy because of our dependence on oil. The price of furnace oil and gasoline increased by 49 per cent last year. This pushed the consumer price index up to 4.1 per cent on Prince Edward Island compared to 2.7 per cent nationally.

Madame Speaker, more details on the Island's economic performance can be found in Budget Paper A.

The result of the strong economy, both nationally and provincially was that revenues performed well. We exceeded budget in sales tax, corporate income tax and Equalization entitlements. Personal income tax is the sole major revenue source that is below budget, caused by a negative adjustment from prior years. I might note that this was also impacted by the reductions in personal income tax rates in each of the past two budgets.

Overall revenues in 2000-01 are up from budget by \$64.7 million, of which \$24.8 million was in Equalization, \$17.4 million from Special Projects Fund, approximately \$14 million from federal support for farmers and the balance from other modest revenue improvements. The Province will have a modest deficit of \$6.7 million for 2000-01 which represents less than 1 per cent of total

"Total labour income increased by 8.4 per cent on Prince Edward Island, surpassing national growth of 7.2 per cent."

"The result of the strong economy, both nationally and provincially was that revenues performed well."

expenditures. Increased investments in health and education and assistance to the potato sector were the major sources of additional spending in 2000-01.

Our deficit would have been larger had it not been for the cooperation of my colleagues and government staff. In November, we asked all departments and government agencies to reduce expenditures by 1 per cent. I wish to express my appreciation for their ability to respond while not impacting on important services and programs.

While the Province would have preferred to have maintained a small surplus in 2000-01 this became increasingly impractical toward year end in view of the uncertainties created by the potato crisis.

Economic Outlook

Madame Speaker, looking forward to the new fiscal year, only four months ago there was a general expectation that continued strong economic growth would occur in the coming year.

The distinct slow down in the US economy this winter, coupled with the severe reductions in world stock markets have caused a serious reassessment of the economy. The economic uncertainties have also caused a severe drop in the Canadian dollar in recent weeks. Economic forecasters have trimmed their projections but still feel confident that economic growth will continue. However, the Canadian rate of growth will be significantly less, down from the upper 4 per cent range to the lower 2 per cent range.

Most economists believe that action by central banks to reduce interest rates will prevent serious economic weakness from taking hold.

"Our deficit would have been larger had it not been for the cooperation of my colleagues and government staff."

I am confident that by maintaining a balanced approach, the Prince Edward Island Government is sufficiently strong to move through these choppy waters without cause for serious concern.

One reason for this confidence is that others view us as a very good credit risk. I was most proud last summer to receive the upgrade of the Province's long-term bonds by the Dominion Bond Rating Service Limited, Canada's pre-eminent Bond Rating organization. It indicated that the Province's economic and financial management resulted in a strong fiscal performance, which permitted an increased credit rating, from BBB high to A low.

"I was most proud last summer to receive the upgrade of the Province's long-term bonds by the Dominion Bond Rating Service Limited, Canada's pre-eminent Bond Rating organization."

Fiscal Outlook

The fiscal outlook is predicated on the belief that the Prince Edward Island economy will experience modest growth, at about 1.5 to 2 per cent in 2001.

During the Budget preparation, difficult decisions were required to rationalize our spending commitments, in view of the emerging revenue picture.

We have been helped somewhat in our fiscal planning by the commitment of additional dollars by the Federal Government for Health and Early Childhood Development. In September 2000 Canada's First Ministers secured agreement for the restoration of funds through the Canada Health and Social Transfer, which raised our revenue from that source from \$75.2 million in 2000-01 to \$87.7 million in 2001-02.

But, Madame Speaker, I was most disappointed with the stand of the Federal Minister of Finance on the issue of the Equalization program, our largest single revenue source. Whereas Equalization revenues for the Province have improved, their future growth is seriously compromised by a ceiling, or cap, that

he has imposed. I have repeatedly told Mr. Martin that this cap should be removed, as this program must be permitted to fully function to allow poorer provinces access to adequate funds, to provide public services comparable to other provinces. That is a Constitutional obligation of the Government of Canada.

The Government of Prince Edward Island believes that the Finance Minister is not honouring the agreement between the Prime Minister and the provincial Premiers of last September, to allow the program to expand with national GDP.

Budget Paper B describes Federal Fiscal Issues in more depth and I invite Honourable Members and the interested public to review this section.

Madame Speaker, I have emphasized in this, as well as our past Budgets, that the Government would lower taxes when we could afford it. The buoyant economy allowed us to implement significant personal income tax reductions in 1999 and 2000. We also removed sales tax on clothing and footwear. The effect of those measures will continue in 2001.

Madame Speaker, I have no new tax increases to announce this evening.

In supporting Island enterprises, we remain committed to assisting our business sector by narrowing the number of taxable inputs subject to sales tax. We also intend to carry through with our commitment to provide tax incentives to encourage business to locate in West Prince and other rural areas of the Province. A program will be announced shortly. I should also note that in 2001, the Province moved to a Tax on Income regime. The provincial *Income Tax Act* was amended in the Fall of 2000 to put this into effect. I should emphasize that the Tax on Income system effectively lowers our annual personal income tax revenue, resulting in a further saving of \$3.9 million, for Island taxpayers. This is because we include higher income thresholds

"The Government of Prince Edward Island believes that the Finance Minister is not honouring the agreement between the Prime Minister and the provincial Premiers of last September..."

"...we remain committed to assisting our business sector by narrowing the number of taxable inputs subject to sales tax. "

for 2001 than were in effect in 2000 and the effective rate for the middle income bracket is reduced from 14.4 per cent to 13.8 per cent.

The Year Ahead

Madame Speaker, as I emphasized at the beginning of this Address, we will only undertake new programs that we can afford. It is our view that the Province must focus on the need for fiscal prudence and priority-spending needs. This is a budget that reflects the unpredictable economic circumstances that we now face.

Madame Speaker, I am pleased to report that the Budget for 2001-02 that I am tabling this evening, has a surplus of \$1.6 million. Total expenditures are set at \$959.1 million in the coming fiscal year and it is our firm resolve to hold fast to expenditures in order to achieve this surplus.

Program Expenditures

Priorities

Reflecting the needs of Islanders, health care, education, jobs and community development are the priorities of this Government.

Health Care

Madame Speaker, given the importance of health care to Islanders, this Budget commits more dollars to the Department of Health and Social Services than ever before. Health and Social Services will receive \$340 million in 2001-02, up \$23.3 million from Budget 2000. This department receives 42 per cent of all provincial program expenditures.

"Madame Speaker, I am pleased to report that the Budget for 2001-02 ... has a surplus of \$1.6 million."

"Madame Speaker, given the importance of health care to Islanders, this Budget commits more dollars to the Department of Health and Social Services than ever before."

Tenders for the construction of the East Prince Health Facility are currently being awarded. The new facility will occupy 180,000 square feet, significantly more than the existing Prince County Hospital. Government contributed \$2.5 million in 2000 to establish the equipment fund for the new facility.

The multi-year Physician Recruitment Strategy is beginning to produce positive results as ten physicians relocated to Prince Edward Island to practice in 2000-2001, including seven family physicians and three specialists. A dedicated physician recruiter was hired and nine new physician positions were established and funded by the Government in 2000-2001.

The Province's Nursing Recruitment and Retention Strategy continues to attract new nurses and retain existing nurses in the Prince Edward Island health system. Initiatives of the already announced \$9.5 million multi-year strategy include the creation of 27 new permanent registered nurse positions to provide relief support in hospitals and long-term care facilities. Thirteen new nurses were recruited to Prince Edward Island last year and an additional 13 new nursing graduates were hired last year. Through the new Student Summer Employment program, 28 Bachelor of Nursing students were employed in Island health facilities.

An integrated Provincial Autism Policy will be implemented to provide improved access to early intervention for children with Autism. This is the result of the collaborative efforts of the Department of Health and Social Services, the Department of Education and non-government Autism support groups.

As part of this new program, support will be increased for Applied Behavioural Analysis therapy, recognizing that early intervention can have a very positive impact for these children.

Child protection services will be enhanced as we prepare for the proclamation of our new child protection legislation. Funding of

***"The multi-year
Physician Recruitment
Strategy is beginning to
produce positive results
..."***

***"An integrated
Provincial Autism Policy
will be implemented to
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to early intervention for
children with Autism."***

Prince Edward Island

\$250,000 will be used to enhance front line staffing requirements, staff training and policy development.

Madame Speaker, I am pleased to announce on behalf of the Government a new Prince Edward Island Disability Support Program. This is the first disability support program in Canada to remove all financial disincentives to disabled persons entering the labour market. It is budgeted at \$7.4 million, of which \$1.5 million is new money.

Madame Speaker, children in Prince Edward Island will become tomorrow's successful and enthusiastic parents, caregivers, workers, leaders and citizens if they are given the opportunity to develop their capacities to the fullest. Amendments to the *Prince Edward Island Employment Standards Act* to allow parents to take parental leave for up to 52 weeks demonstrates this Government's commitment to support working parents in balancing work and family life. It allows parents to spend more time with their new babies or adopted children, during the critical first year. This reaffirms our dedication to the development of Prince Edward Island children.

More details on Health initiatives will be forthcoming from the Minister of Health and Social Services.

Education

Madame Speaker, improved education at all levels is vital to our future growth and prosperity.

Implementation of the Province's first publicly-funded, community-based kindergarten system is on track and the first group of children to enter this program are completing their programs in the next few months. This budget will invest \$3.2 million in year two for the kindergarten program.

"I am pleased to announce ... a new Prince Edward Island Disability Support Program."

"Amendments to the Prince Edward Island Employment Standards Act ... reaffirms our dedication to the development of Prince Edward Island children."

"This budget will invest \$3.2 million in year two for the kindergarten program."

The Government's Capital Construction Plan for Schools is a multi-year strategy to enhance the infrastructure of 10 Island schools and provide for the on-going capital maintenance of all schools in Prince Edward Island. This is the most ambitious school construction plan in the Province's history, once again reaffirming our commitment to Island communities and our children's development.

Madame la présidente, le Gouvernement s'associe avec le ministère fédéral de Patrimoine Canadien pour assurer que les communautés francophones et acadiennes de l'Isle reçoivent éducation et programmes culturels de haute qualité.

Nous allons contribuer deux millions deux cents mille dollars vers la construction de la nouvelle école française à Summerside, ainsi que la somme additionnelle de quatre cents quinze mille dollars qui sera dirigée vers l'éducation française à l'Île-du-Prince-Édouard. Ces fonds vont à aider la continuation des projets-épreuve de langue française à Prince Ouest et à Rustico, des jardins d'enfants en français, et des allocations à la Commission scolaire de langue française.

Madame Speaker, the Government is partnering with the federal Department of Canadian Heritage to ensure quality education and cultural programs are offered to the Island Francophone and Acadian community. We will contribute \$2.2 million towards the construction of the new French school in Summerside, as well as an additional \$415,000 which will be directed towards French education on Prince Edward Island. This funding will assist with the continuation of French language pilots in West Prince and Rustico, French kindergarten and funding to *La Commission scolaire de langue française*.

This Government has contributed \$1.4 million to cover the operating deficits of the Western School Board and Eastern School District, as of June 30, 2000. These deficits were due, in large part, to the increasing cost of fuel. In addition, we also

"Nous allons contribuer deux millions deux cents mille dollars vers la construction de la nouvelle école française à Summerside, ainsi que la somme additionnelle de quatre cents quinze mille dollars qui sera dirigée vers l'éducation française à l'Île-du-Prince-Édouard."

"We will contribute \$2.2 million towards the construction of the new French school in Summerside, as well as an additional \$415,000 which will be directed towards French education on Prince Edward Island."

Prince Edward Island

approved a further \$1.2 million to be directed to school boards to help them deal with the high cost of fuel in the current school year. An additional \$700,000 is being provided to school boards for staffing and funding, which includes \$140,000 for the classroom program materials budget.

Madame Speaker, the Department of Education's budget for 2001-02 is \$197.1 million, which is an increase of \$12.5 million from 2000-01.

Our Island schools are the envy of many provinces as they enjoy full access to the Internet. Government is increasing the budget for technology support for the school system by \$250,000 and has also funded a \$100,000 computer upgrade in intermediate schools.

Through a cost-shared \$1 million partnership with the Labour Market Development Agreement, 38 user-support specialist interns will work with the Island's three school boards to assist field technicians in addressing technology issues in Island schools.

Madame Speaker, the Government has committed \$12 million over three years for increased financial support to Holland College and the University of Prince Edward Island. This is year two of this three year commitment and this Budget contains the second instalment of \$2 million for each of these important institutions.

Job Creation and Development

The Government continues to be committed to job creation and economic development.

Madame Speaker, to strengthen development in this Province, our Government is contributing \$6 million to Prince Edward Island

***"An additional \$700,000
is being provided to
school boards for
staffing and funding..."***

Business Development Inc. to offset the loss of federal dollars from the Regional Economic Development Agreement.

The Province is initiating the development of a world class facility to support the Island's high technology industry. The Atlantic Technology Centre will be a key development tool in retaining and attracting leading technology partners to Island companies. The Centre will provide infrastructure and resources to help develop and grow strong technology companies.

Team Canada is an excellent vehicle to increase business potential for our Province. Manufacturing exports have soared in recent years, as previously indicated, in part, because of trade missions. As a government, we have a responsibility to market Prince Edward Island directly to the global marketplace. During the recent Trade Mission to China, Prince Edward Island's major focus was on education. Holland College entered into formal relationships with several Chinese colleges which will see Holland College business technology curriculum delivered in China.

As a result of the Team Canada Atlantic mission to New England, Atlantic companies achieved \$1.85 million of sales, growing to \$15.7 million over two years.

In terms of business expansions, the manufacturing sector continues to lead the way. Several aerospace companies at Slemon Park are expanding. Two new nutraceutical operations are coming to the Charlottetown Airport Business Park. Smoked fish products and potato chip production will be expanding. Production of fibre optic cable assemblies and employment in call centres is also rising.

"The Province is initiating the development of a world class facility to support the Island's high technology industry."

"In terms of business expansions, the manufacturing sector continues to lead the way."

Communities

Madame Speaker, in support of community development, this Budget provides \$4.2 million through the Canada-P.E.I. Infrastructure Program. In addition, the Government is pleased to announce a \$6 million initiative to support recreational facilities across the Province over the next four years. We will fund \$2 million immediately and the remaining \$4 million will be paid in equal amounts over years 2003 to 2005.

The Community Development Fund, which was established two years ago, resulted in \$2 million going towards community projects. This budget commits an additional \$500,000 towards community development projects.

The latest Access PEI sites have opened in Stratford, North Rustico and Crapaud bringing the total number of sites across the Province to 12. Access PEI offers Islanders one-stop shopping for over 100 government services, including motor vehicle registrations and permits. Each site offers basic core services such as building permits, driver's license renewals, marriage licenses, program and job applications, business registrations and a number of the sites offer other services, depending on the needs of the area.

Funding of \$500,000 has been established in this Budget to begin the planning for the construction of the new Prince County Courthouse.

Agriculture

Madame Speaker, we all know that this has been a particularly difficult period for Island potato farmers. In response to the closure of the United States border in October of 2000, and voluntary restrictions on shipments to the rest of Canada, the

"... the Government is pleased to announce a \$6 million initiative to support recreational facilities across the Province over the next four years."

Provincial Government quickly committed \$15 million of financial support to the industry. The objective of this program is to provide much needed cash flow to producers.

Agricultural safety nets are important in ensuring a measure of stability to producers but contributions to farm safety net programs were not sufficient to address the disastrous impacts of the potato wart crisis. After a lengthy and difficult delay, the Federal Government subsequently announced a contribution of \$12.6 million for diversion and an additional \$1.5 million to help the movement of potatoes to food banks across Canada. Further discussions will be held to ensure federal support is expanded. We will continue to work closely together until this matter is resolved and the ban on exports is removed.

In support of the Food Strategy goals, financial and technical assistance of \$3.4 million has been committed to date under the Agriculture and Environmental Resources Conservation program for on-farm projects such as manure storage, hedgerow establishment and soil conservation.

In support of the sustainable management of the Province's forest resources, the level of seedling production was increased to three million seedlings over the past year. In recognition of the importance of our forests to present and future generations of Islanders, each newborn child in Prince Edward Island is being presented with a Red Oak seedling. As well, a special ceremony was held in the past year to mark the planting of the 50 millionth tree by the Provincial Government.

New funding of \$1.7 million will be allocated to the Seed Potato Quality Strategy and funding of \$1 million will be available for the Agriculture and Environmental Resources Conservation Program.

"...the Provincial Government quickly committed \$15 million of financial support to the industry."

"New funding of \$1.7 million will be allocated to the Seed Potato Quality Strategy..."

Fisheries, Aquaculture and Environment

The fastest growing sector in the Prince Edward Island fishery, aquaculture, continues to have a major impact on rural communities, creating new opportunities for steady, long-term employment. To strengthen the aquaculture industry in 2001, the Government will explore potential for growth in the finfish sector which builds upon one of Prince Edward Island's natural strengths, the high quality of our ground water. This Budget will provide increased funding and will support new initiatives to expand research and training and explore new technologies in the fishery.

Madame Speaker, water quality problems in many parts of Canada last year have given all Canadians a greater appreciation for this invaluable resource. Here in Prince Edward Island, we have seen evidence of that heightened awareness in the vast increase in the number of requests for water sampling and laboratory analysis of drinking water. The Department of Fisheries, Aquaculture and Environment processed approximately 11,000 ground water samples in the year 2000; double the figure from 1999.

Last year's budget included an investment of \$500,000 for new laboratory equipment to provide more efficient processing of water samples. As well, our Government provided additional resources to meet the increased demand for water testing that developed throughout the year. A further \$270,000 is committed towards a Drinking Water Strategy for Prince Edward Island.

Research is a key component of economic development. Our Government is investing \$250,000 over five years in the Lobster Science Centre at the Atlantic Veterinary College. In addition, the Department of Fisheries, Aquaculture and Environment has hired a lobster biologist to assist in expanding lobster research initiatives in Prince Edward Island, in cooperation with the

"The fastest growing sector in the Prince Edward Island fishery, aquaculture continues to have a major impact on rural communities, creating new opportunities for steady, long-term employment."

"A further \$270,000 is committed towards a Drinking Water Strategy for Prince Edward Island."

Federal Department of Fisheries and Oceans, the industry and the Lobster Science Centre.

Tourism

Madame Speaker, the 2001 Tourism Marketing campaign was recently announced and will continue to focus on the Island's primary markets of the Maritimes, Quebec, Ontario and the Eastern Seaboard of the US. Our emphasis will be on regaining market share in our traditional markets as we continue to promote the Island as a great vacation destination.

The Regional Economic Development Agreement between the Federal Government and the Province will expire on March 31, 2001, which would have resulted in a decrease in tourism funding of \$800,000 in the 2001-2002 budget year. Our Government has restored this funding, as tourism is a key component of our economy.

A committee comprised of representatives from Government, the private sector, the tourism industry and Island municipalities has been established to review the Province's signage policy and to make recommendations on future direction. It has been over 25 years since the current policies and programs for commercial signage were put in place and a great deal of development has occurred since these policies were first established.

This Government will contribute approximately \$625,000 towards upgrading Provincial Parks waste/water treatment facilities and \$525,000 to construct a new visitor information centre in West Prince.

This summer, Prince Edward Island will play host to the World Boy Scout Jamboree, which will be held at Cabot Provincial Park. Also, the Canadian men's golf tour will return to Prince Edward Island this year to play at Mill River.

"Our emphasis will be on regaining market share in our traditional markets as we continue to promote the Island as a great vacation destination."

Prince Edward Island

Madame Speaker, we can take pride in the fact that, for such a small province, we have more than our fair share of world class sports athletes. I cannot name them all, but Lorie Kane's performance last year in the LPGA was outstanding. The Lorie Kane Island Challenge, here at Brudenell, commanded an international audience last summer. Who can forget the performance of Eli MacEachern in winning gold in the last Winter Olympics? The Canadian goal ball team, with Islanders Contessa Scott and coach Frank MacIntyre, returned from Sydney in 2000 with gold medals. Brad Richards of Murray Harbour is presently a prime candidate for the National Hockey League's rookie-of-the-year honours. I should note that Steve Edmonds from Stratford will be representing Canada in judo at the 2004 Olympics.

Now we are home to the World Junior Women's Curling Champions thanks to the superb performance of the Suzanne Gaudet rink in Utah.

The world attention that our ambassadors in sports have achieved can only add to the appeal of Prince Edward Island as a great vacation destination. We have every reason to believe that tourism will reach new heights in 2001.

Conclusion

Madame Speaker, a year ago I brought in a Budget that was based on the theme of a Balanced Agenda. I believe we delivered on that promise. We have kept to our basic priorities of improved Health Care, Education, Jobs and Community Development.

A balanced approach is key to sustained economic and social improvement. It is my belief that the 2001 Budget responds to the economic and social needs of Islanders in the coming year, while continuing to provide a foundation for future prosperity.

"Madame Speaker, we can take pride in the fact that, for such a small province, we have more than our fair share of world class sports athletes."

The strength of the Province lies in all the dedicated people who share our commitment to make this province a better place to live.

In closing Madame Speaker, I want to thank everyone who had a part to play in bringing forward this Budget, the staff in Provincial Treasury and other departments, the members of the Government and to those Islanders who brought forward their ideas and proposals in the past months.

Thank You.

"It is my belief that the 2001 Budget responds to the economic and social needs of Islanders in the coming year, while continuing to provide a foundation for future prosperity."

BUDGET SCHEDULES

- 1. Budget Summary**
- 2. Gross Revenues**
- 3. Gross Expenditures**
- 4. Capital Revenue and Expenditure**
- 5. Financial Requirements**
- 6. Where the Money Comes From**
- 7. Where the Money Goes**
- 8. Summary Comparison - Provincial Tax Rates**
- 9. Historical Financial Statistics, Prince Edward Island,
1998/99 to 2001/02**

Schedule 1 Budget Summary

	2001-02 Budget <u>Estimate</u> \$	2000-01 <u>Forecast</u> \$	2000-01 Budget <u>Estimate</u> \$
REVENUES			
Current Revenue	935,758,500	929,026,300	860,857,600
Capital Revenue	425,000	1,022,000	451,000
Sinking Fund Earnings	21,550,000	22,000,000	21,550,000
Pension Plan Adjustment	<u>3,000,000</u>	<u>2,500,000</u>	<u>7,000,000</u>
Total Revenues	<u>960,733,500</u>	<u>954,548,300</u>	<u>889,858,600</u>
EXPENDITURES			
Current Program Expenditure	808,205,500	817,091,700	742,398,200
Interest Charges on Debt	108,971,700	107,741,100	108,470,000
East Prince Health Facility	<u>13,000,000</u>	<u>6,255,000</u>	<u>9,000,000</u>
Total Current Expenditures	930,177,200	931,087,800	859,868,200
CAPITAL	<u>28,955,700</u>	<u>30,119,100</u>	<u>29,771,100</u>
TOTAL EXPENDITURES	<u>959,132,900</u>	<u>961,206,900</u>	<u>889,639,300</u>
BUDGETARY SURPLUS (DEFICIT) AND CHANGE IN NET DEBT	<u>1,600,600</u>	<u>(6,658,600)</u>	<u>219,300</u>

Schedule 2 Gross Revenues

	2001-02 Budget <u>Estimate</u> \$	2000-01 <u>Forecast</u> \$	2000-01 Budget <u>Estimate</u> \$
PROVINCIAL OWN SOURCE			
Taxes	451,702,700	440,585,100	437,473,600
Investments	12,414,200	11,862,800	12,596,100
Fees and Services	38,250,000	49,949,600	30,801,300
Licenses and Permits	15,101,700	15,970,500	14,098,700
Sales	<u>28,313,300</u>	<u>25,889,500</u>	<u>25,537,900</u>
Sub-Total	<u>545,781,900</u>	<u>544,257,500</u>	<u>520,507,600</u>
GOVERNMENT OF CANADA			
Equalization	275,000,000	269,672,000	244,852,000
Canada Health and Social Transfer	87,755,000	75,221,000	74,445,000
E.R.D.A.	160,000	5,207,800	4,895,000
Housing Programs	2,070,100	2,160,000	1,767,000
Young Offenders Services	2,292,600	2,177,100	2,172,600
Minority and Second Language	4,959,000	2,089,600	1,468,600
French Services Agreement	1,642,500	1,694,000	1,322,500
Agriculture and Agri-Food Canada	1,000,000	13,600,000	-
Other	<u>15,097,400</u>	<u>12,947,300</u>	<u>9,427,300</u>
Sub-Total	<u>389,976,600</u>	<u>384,768,800</u>	<u>340,350,000</u>
TOTAL CURRENT REVENUE	935,758,500	929,026,300	860,857,600
CAPITAL REVENUE	425,000	1,022,000	451,000
SINKING FUND EARNINGS	21,550,000	22,000,000	21,550,000
PENSION PLAN ADJUSTMENT	<u>3,000,000</u>	<u>2,500,000</u>	<u>7,000,000</u>
GROSS REVENUE	<u>960,733,500</u>	<u>954,548,300</u>	<u>889,858,600</u>

Schedule 3 Gross Expenditures

	2001-02 Budget <u>Estimate</u> \$	2000-01 Forecast <u>Estimate</u> \$	2000-01 Budget <u>Estimate</u> \$
CURRENT			
Agriculture and Forestry	32,610,800	51,806,300	22,944,700
P.E.I. Grain Elevators Corporation	165,000	316,300	165,000
Community and Cultural Affairs	18,161,300	14,264,500	12,117,700
Development and Technology	7,031,200	14,126,600	10,518,600
Technology Asset Management.	1,631,000	508,500	1,258,500
Prince Edward Island Business Development Inc.	28,286,600	38,608,100	29,313,900
Employment Development Agency	4,091,800	6,053,600	3,722,100
P.E.I. Energy Corporation	306,200	299,500	312,400
Education	197,185,000	190,609,000	184,632,700
Island Regulatory and Appeals Commission	1,065,100	1,065,100	1,065,100
Office of the Attorney General.	28,680,400	27,794,400	27,529,900
Executive Council	2,266,400	2,310,400	2,359,000
Tourism	161,800	143,400	161,800
Tourism PEI	10,634,900	10,114,400	9,712,900
Health and Social Services	340,442,600	327,355,400	317,132,200
Legislative Assembly	3,067,300	3,821,800	3,106,300
Provincial Treasury	18,609,200	17,021,900	17,027,400
Council of Maritime Premiers	183,700	183,700	183,700
General Government	17,106,400	8,393,500	7,093,400
Interministerial Women's Secretariat	340,200	340,200	343,600
P.E.I. Lending Agency.	783,900	786,400	794,300
Fisheries, Aquaculture and Environment	7,950,000	8,124,200	7,615,600
Transportation and Public Works	70,300,100	73,216,000	66,298,800
Auditor General	1,229,400	1,147,800	1,203,600
P.E.I. Public Service Commission	5,177,100	5,329,000	5,382,800
Employee Benefits	<u>10,738,100</u>	<u>13,351,700</u>	<u>10,402,200</u>
PROGRAM EXPENDITURE	808,205,500	817,091,700	742,398,200
 Interest Charges on Debt	 108,971,700	 107,741,100	 108,470,000
East Prince Health Facility	<u>13,000,000</u>	<u>6,255,000</u>	<u>9,000,000</u>
 TOTAL CURRENT EXPENDITURE	 930,177,200	 931,087,800	 859,868,200
 CAPITAL			
Capital Expenditure	<u>28,955,700</u>	<u>30,119,100</u>	<u>29,771,100</u>
 GROSS EXPENDITURE	 <u>959,132,900</u>	 <u>961,206,900</u>	 <u>889,639,300</u>

Schedule 4

Capital Revenue and Expenditure

	2001-02 Budget Estimate \$	2000-01 Forecast \$	2000-01 Budget Estimate \$
REVENUE			
Land	295,000	830,000	321,000
Miscellaneous	<u>130,000</u>	<u>192,000</u>	<u>130,000</u>
Total Capital Revenue	<u>425,000</u>	<u>1,022,000</u>	<u>451,000</u>
EXPENDITURE			
Highways	25,972,900	26,876,900	26,103,500
Buildings	<u>2,982,800</u>	<u>3,242,200</u>	<u>3,667,600</u>
Total Capital Expenditure	<u>28,955,700</u>	<u>30,119,100</u>	<u>29,771,100</u>
NET CAPITAL EXPENDITURE	<u>28,530,700</u>	<u>29,097,100</u>	<u>29,320,100</u>

Schedule 5

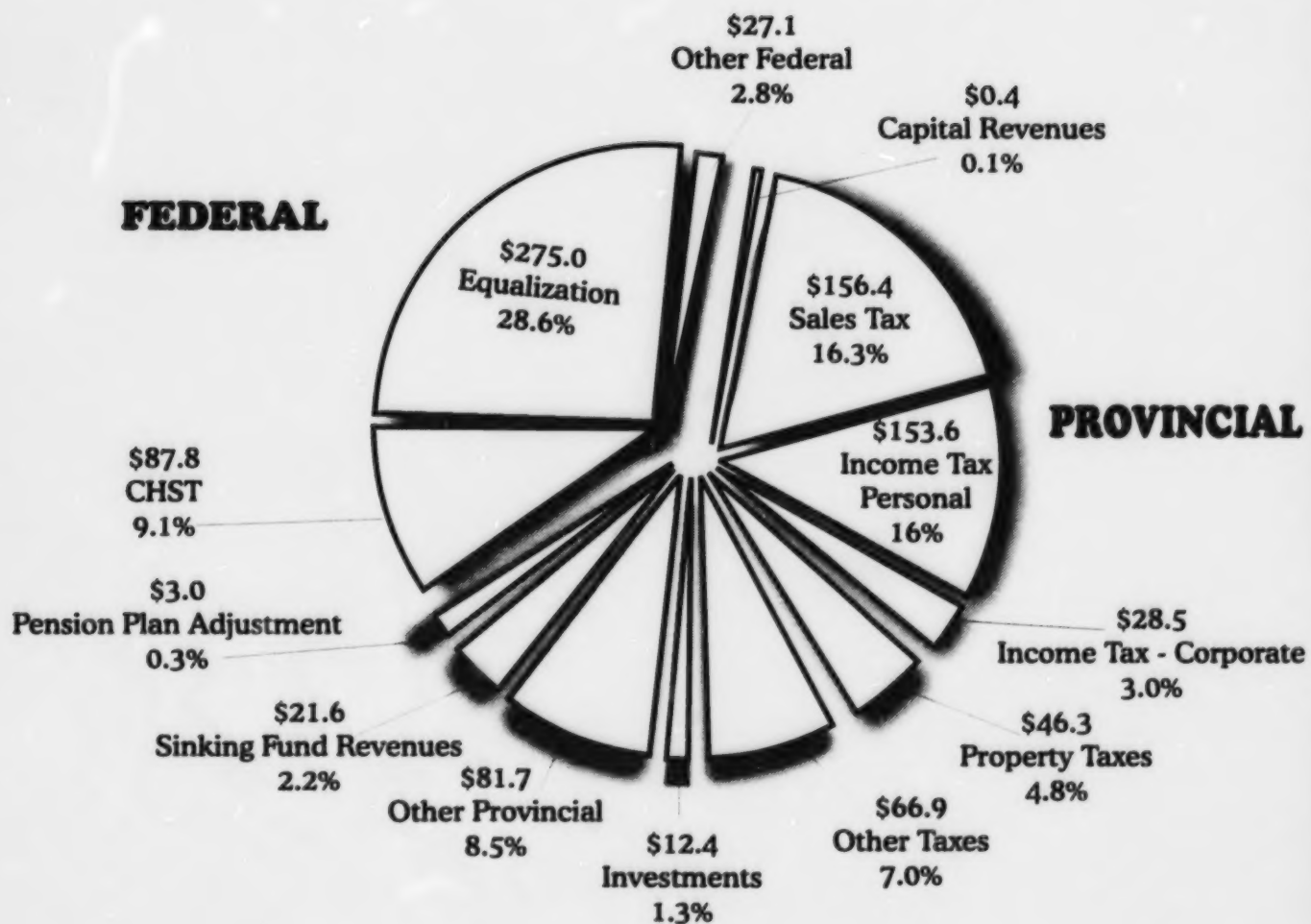
Financial Requirements

	2001-02 Budget Estimate ('000 \$)	2000-01 Forecast ('000 \$)	2000-01 Budget Estimate ('000 \$)
FINANCIAL REQUIREMENTS			
Net Borrowing on Behalf of Crown Corporations	30,900	53,800	37,700
Sinking Fund Earnings	21,500	22,000	21,500
Sinking Fund Provisions	11,100	11,300	11,300
Non Cash Item - Pension Plan Adjustment	3,000	2,500	7,000
Federal Loans	1,200	700	700
Budgetary (Surplus)/Deficit	(1,600)	6,600	(200)
Maturing Debt			
Canada Pension Plan	11,500	9,100	9,100
Public Debentures	13,500	2,000	2,000
Capital Lease	<u>21,700</u>	<u>-</u>	<u>-</u>
	<u>112,800</u>	<u>108,000</u>	<u>89,100</u>
SOURCE OF FUNDS			
Canada Pension Plan Borrowing	11,500	9,100	9,100
Short-term Borrowing	1,100	96,900	78,000
Long-term Borrowing	65,000	-	-
Sinking Fund	<u>35,200</u>	<u>2,000</u>	<u>2,000</u>
	<u>112,800</u>	<u>108,000</u>	<u>89,100</u>

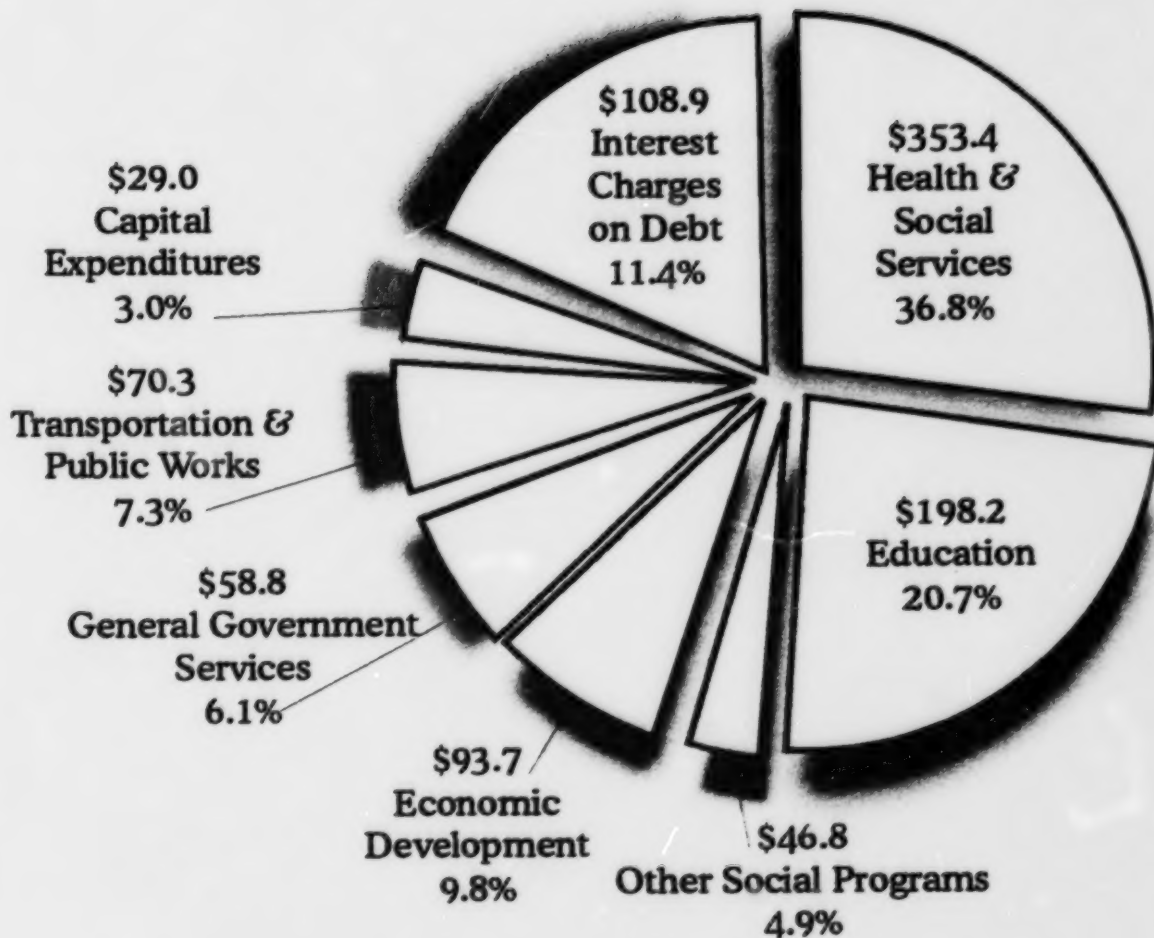
Schedule 6

Where the Money Comes From

2001-2002



Schedule 7
Where the Money Goes
2001-2002



Schedule 8

Summary Comparison - Provincial Tax Rates^{1,2}

	Sales Tax	Fuel		Tobacco Tax (\$/pk 25)	Corporate Tax	
		Gasoline (\$/litre)	Diesel (\$/litre)		General ³	Small
British Columbia	7.0%	11.0	11.5	\$2.75 ⁵	16.5%	4.5%
Alberta	-	9.0	9.0	\$1.75 ⁵	15.5%	6.0%
Saskatchewan	6.0%	15.0	15.0	\$2.15	17.0%	8.0%
Manitoba	7.0%	11.5	10.9	\$2.15	17.0%	7.0%
Ontario	8.0%	14.7	14.3	\$0.67	14.0%	6.5%
Quebec	7.5%	15.2 ⁴	16.2 ⁴	\$1.08 ⁵	16.25%	8.9%
New Brunswick	8.0%	10.7 ⁴	13.7 ⁴	\$1.04	17.0%	4.5%
Nova Scotia	8.0%	13.5 ⁴	15.4 ⁴	\$1.21	16.0%	5.0%
Newfoundland	8.0%	16.5 ⁴	16.5 ⁴	\$2.75	14.0%	5.0%
Prince Edward Island	10.0%	13.0	13.5	\$1.65⁵	16.0%	7.5%
Atlantic Average	8.5%	13.4	14.8	\$1.66	15.8%	5.5%
National Average	7.7%	13.0	13.6	\$1.72	16.1%	6.3%

¹ Rates are as of March 6, 2001, unless otherwise indicated.

² Interprovincial comparison of personal income taxes are presented in Budget Paper C.

³ Prince Edward Island, Newfoundland, Ontario, Saskatchewan and Alberta have special rates for manufacturers & processors.

⁴ Provinces levying Value Added Taxes, namely Quebec, New Brunswick, Nova Scotia and Newfoundland, also apply sales tax on gas and diesel fuel purchases.

⁵ Prince Edward Island, Quebec, Alberta and British Columbia do not levy provincial retail sales tax on top of the tobacco tax rate, as do other provinces.

Schedule 9
Historical Financial Statistics, Prince Edward Island
1998/99 to 2001/02
(\$ million)

	98/99	99/00	00/01	01/02
Revenues				
Current Revenue	819.6	871.9	929.0	935.7
Capital Revenue	10.6	5.3	1.0	0.4
Sinking Fund Earnings	21.7	23.2	22.0	21.6
Pension Plan Adjustment	<u>6.0</u>	<u>2.5</u>	<u>2.5</u>	<u>3.0</u>
Total Revenues	<u>857.9</u>	<u>902.9</u>	<u>954.5</u>	<u>960.7</u>
Expenditures				
Program Expenditure	715.2	760.0	823.4	821.2
Capital Expenditure	35.1	45.6	30.1	29.0
Interest Charges on Debt	<u>101.3</u>	<u>102.7</u>	<u>107.7</u>	<u>108.9</u>
Total Expenditures	<u>851.6</u>	<u>908.3</u>	<u>961.2</u>	<u>959.1</u>
Budgetary Surplus (Deficit)				
and Change in Net Debt	<u>6.3</u>	<u>(5.4)</u>	<u>(6.7)</u>	<u>1.6</u>
Net Debt				
Net Debt, Beginning of Year ...	996.7	990.4	1024.3	1031.0
Employee Benefits Accrual	-	28.5	-	-
Budgetary (Surplus)/Deficit	<u>(6.3)</u>	<u>5.4</u>	<u>6.7</u>	<u>(1.6)</u>
Net Debt, End of Year	<u>990.4</u>	<u>1024.3</u>	<u>1031.0</u>	<u>1029.4</u>

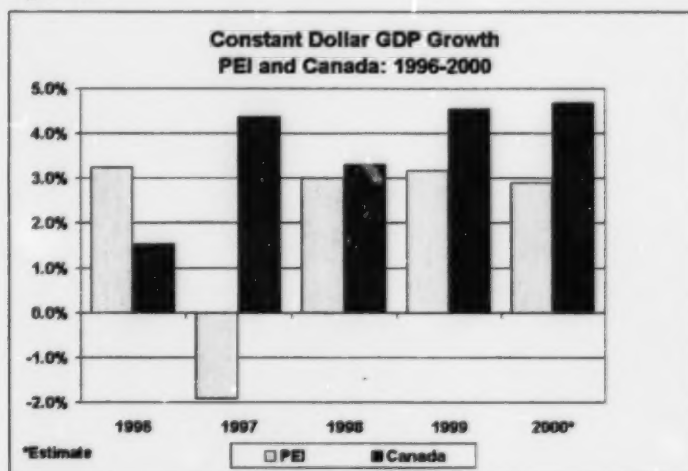
BUDGET PAPER A:
BACKGROUND NOTES ON THE ECONOMY

BUDGET PAPER A: BACKGROUND NOTES ON THE ECONOMY

Highlights

- Statistics on the economy in 2000 indicate that economic growth for Prince Edward Island, as measured by constant dollar Gross Domestic Product, was 2.9 per cent in 2000 which compares to a national rate of growth of 4.7 per cent. Economic expansion in 2000 reflects increased employment, rising personal incomes and an improved export performance. As seen in Figure A.1, this is the third year of economic growth in the order of 3.0 per cent on Prince Edward Island.

Figure A.1



Source: Statistics Canada, Canadian Economic Observer.

- Employment grew by 5.2 per cent on Prince Edward Island during 2000, easily the fastest rate in the country. Total employment averaged 64,500 people and the unemployment rate was 12.0 per cent, a drop of 2.4 percentage points from 1999.
- Vigorous employment gains translated into equally strong total labour income growth of 8.4 per cent during 2000.
- Consumer prices were on the rise in 2000 as the price of international crude oil increased steadily. The average annual increase in the national Consumer Price Index in 2000 was 2.7 per cent. This compares with an average consumer price index increase for Prince Edward Island of 4.1 per cent. The difference is the result of the larger dependency on oil in Prince Edward Island.

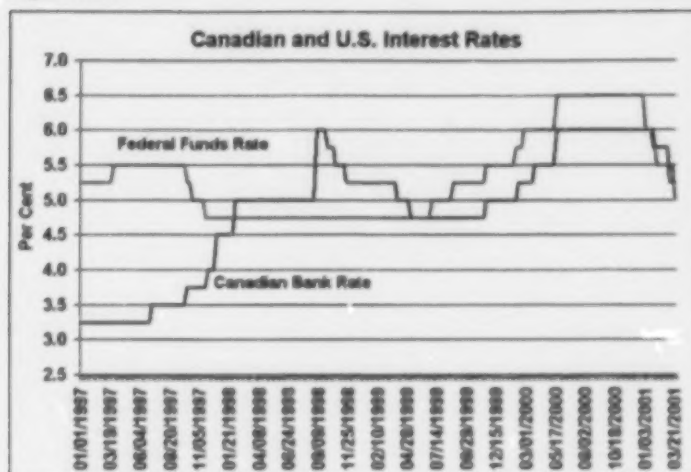
- The value of manufacturing shipments expanded by 6.6 per cent in 2000, totaling \$1,182.6 million. Food manufacturing shipments expanded by 10.7 per cent. Shipments of transportation and equipment were off by 24.2 per cent or \$49.6 million in 2000.
- Low potato prices and the U.S. ban on P.E.I. potatoes resulted in a decline in farm cash receipts in 2000.
- Lobster landings in 2000 totaled 19 million lbs for an estimated value of \$85.7 million. The volume of wood harvested on P.E.I. totaled 794.1 thousand cubic meters, a 7.1 per cent decline compared to 1999.
- Looking forward to 2001 the economic consensus suggests that the rapid growth in North America of the past four years is coming to an end.
- The U.S. slow-down and lay-offs in the auto sector and the high tech sector, coupled with sinking stock prices are causing concern for consumers.
- Private sector forecasters have lowered their estimates of Canadian GDP growth for 2001. The general consensus is that the Canadian GDP growth will remain muted during the first half of 2001 then gain momentum during the remaining months. Some commentators suggest this scenario is optimistic given the rate of the economic slowdown.
- The outlook for economic growth on Prince Edward Island in 2001 is in the range of 1.5 to 2.0 per cent.

National Review

- The Canadian economy expanded by 4.7 per cent in real terms in 2000, surpassing its stellar performance of 1999. Economic growth in 2000 was the highest rate since 1994.
- National employment gains of 379,000 people in 2000 pushed the unemployment figure down to an average of 6.8 per cent, its lowest rate in more than 25 years.
- Labour income advanced 7.2 per cent, due to healthy employment gains and higher average annual earnings. The federal pay equity settlement added 0.5 per cent to the growth in labour income.
- Rising incomes and increased confidence boosted consumption of durable goods, particularly new motor vehicle purchases, as well as housing construction.

- Corporate profits were up by 23.4 per cent in 2000. Aided by rising prices, oil and natural gas profits increased by more than 100 per cent in 2000. Profits in the manufacturing sector grew at a healthy pace, particularly in the computer and telecommunications industries.
- Profits of crown corporations in Canada surged by 46.0 per cent in 2000 on the strength of rising prices and demand for electricity in the Pacific Northwest states.
- Business investment increased by 14.0 per cent during 2000, led by a surge of 20.0 per cent in machinery and equipment purchases. Computer and business equipment grew by 43.4 per cent on top of similar gains in 1999. Investment in telecommunications equipment posted double digit growth for the second year in a row.
- Canada's export performance in goods and services increased by 9.6 per cent in current dollars in 2000. Growth was led by a 25.0 per cent increase in machinery and equipment exports. Notwithstanding the trade embargo on P.E.I. potatoes, national agricultural trade expanded at 5.3 per cent. Automobile exports were down compared to 1999 as demand for new automobiles declined in the United States. The volume of energy exports rose 7.2 per cent on rising demand for natural gas and electricity, particularly in California. The value of energy exports surged by 76.8 per cent in 2000 as the price of crude oil rose by 60 per cent and natural gas prices were about double their 1999 levels.
- Stock markets declined during the last three quarters of 2000 and there have been further sharp falls in 2001. As of mid March of 2001, the Toronto Stock Exchange 300 index has lost approximately 30 per cent of its value since October, while the Dow Jones industrial average is down 15 per cent. However, the high-tech market, NASDAQ, has suffered most as its value has plunged by more than 60 per cent in the past 12 months.
- Monetary authorities in both Canada and the U.S. raised their key interest rate during 2000 in efforts to slow the economy to a sustainable rate. Apparent economic weakness in the fourth quarter of 2000 indicated a more rapid slowdown in the North American economy than had been expected.
- Aggressive interest rate cuts in early 2001 by monetary authorities mark attempts to head off a more pronounced economic slowdown. Figure A.2 shows that the U.S. Federal Reserve cut their key interest rate from 6.5 per cent to 5.0 per cent during the first three months of 2001 and during the same period the Bank of Canada cut its key interest rate by 75 basis points, from 6.0 per cent to 5.25 per cent in two steps.

Figure A.2



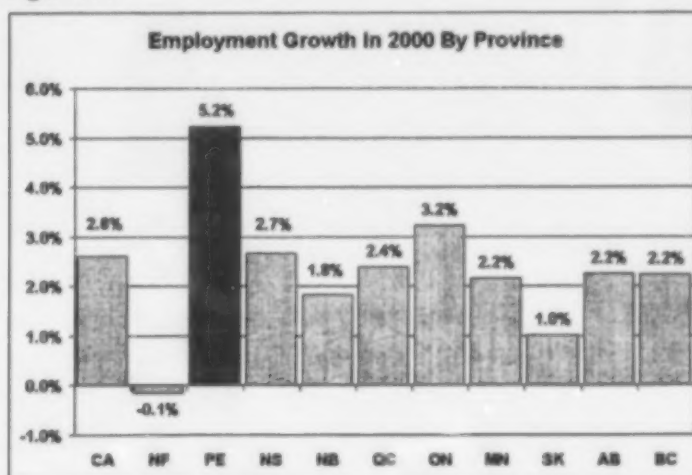
Source: Bank of Canada, U.S. Federal Reserve.

The Canadian dollar has fallen against the U.S. dollar, amid the current economic uncertainty, to levels unseen since the height of the Asian financial crisis in August of 1998.

The Prince Edward Island Economy

The estimated value of Prince Edward Island's Gross Domestic Product at market prices for 2000 is \$3,207 million. In constant dollars this represents real growth of 2.9 per cent in the Island economy from 1999. The Prince Edward Island economy continued to have a consistent economic growth performance in the order of 3.0 per cent per year over the past three years.

Figure A.3



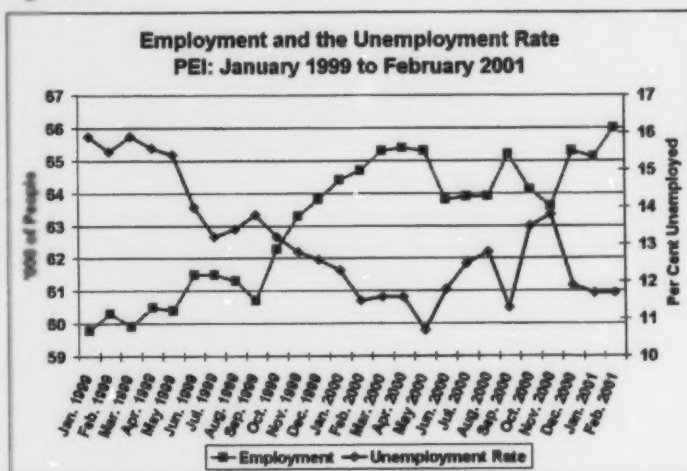
Source: Statistics Canada, Labour Force Survey.

Economic growth was highlighted by an extraordinary increase in employment on the Island. Figure A.3 shows the rates of employment growth for provinces in 2000 and P.E.I.'s rate of 5.2 per cent is

easily the highest rate in the country.

Total employment on Prince Edward

Island grew by 3,200 people for an annual average of 64,500 people. Historical records dating back to 1911 indicate that the growth in employment during 2000 was unparalleled in the Island's history. The trends in employment levels and the unemployment rate on P.E.I. since the beginning of 1999 are shown in Figure A.4. The rapid increase in employment pushed the unemployment rate down to 12.0 per cent, its lowest level since 1981. Employment gains were even across various sectors with growth of 6.0 per cent in the goods producing sector and 5.2 per cent in the service producing sectors.

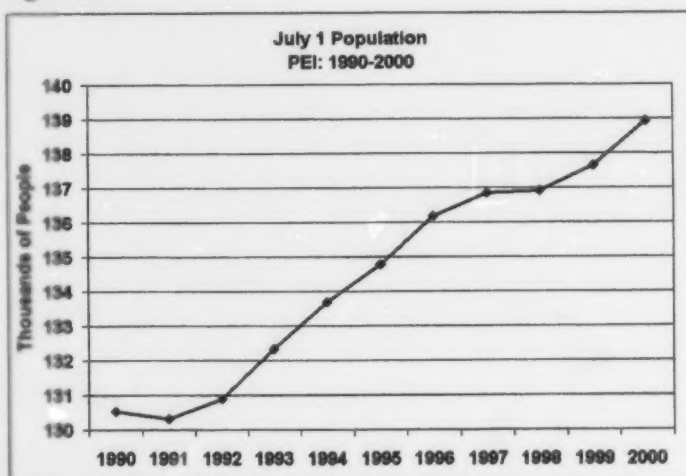


Source: Statistics Canada, Labour Force Survey.

The largest increase in employment occurred in the accommodation and food service industry, expanding by 21.7 per cent to reach 5,000 employees, followed by a 16.5 per cent increase in agricultural employment. Employment in the manufacturing industries grew by a healthy 4.7 per cent. Employment data for the first two months of 2001 show continued strength, as the level of employment reached another all time high of 66,000 people in February. Employment gains in 2001 are expected to slow to more modest rates of expansion.

The provincial population, as estimated

by Statistics Canada on July 1st, 2000, expanded by 0.9 per cent for a total of 138,928 people. As can be seen in Figure A.5 the population on Prince Edward Island continued to grow steadily during the late 1990's as a result of robust economic growth.



Source: Statistics Canada, Demography Division

Following the rapid growth in employment, total labour income increased by 8.4 per cent in 2000, on top of strong growth recorded the previous year. Federal pay equity settlements account for approximately 2 percentage points of the growth in

total labour income. The rate of growth of investment income slowed in 2000 resulting from softer investment markets as compared to 1999.

The cool damp weather during the peak summer months of 2000, coupled with major events in neighbouring provinces resulted in a modest drop in total tourism spending. Tourism spending declined by 1.2 per cent to value \$280 million. Higher per tourist spending helped to offset the 6.2 per cent decline in the number of visitors during 2000.

Excellent growing and harvesting conditions in North America resulted in bountiful crops in 2000. Higher potato yields resulted in higher total production even though harvested acreage declined by 1.8 per cent. The United States banned importation of unprocessed potatoes from P.E.I. on October 31, of 2000. Provincial and federal aid packages have been announced to address declining revenues for potato producers.

Detailed Sector Review

Manufacturing

The value of manufactured products shipped from Prince Edward Island in 2000 was \$1,182.6 million, an increase of 6.6 per cent over 1999. The value of food processing expanded by 10.7 per cent in 2000, largely a result of growth in the value of processed fish products. Food processing accounted for 72.1 per cent of the total value of Prince Edward Island's manufacturing shipments in 2000. Shipments of transportation and equipment in 2000 were valued at \$155 million; this is a decline of 24.2 per cent compared to the previous year.

Exports

Prince Edward Island's extraordinary international export performance during the past decade continued in 2000 with a 20 per cent increase in value. Exports of frozen fruit and vegetables, consisting mainly of french fries, jumped 25.6 per cent to a value of \$200.6 million in 2000. The value of exported fish products showed healthy expansion with an increase of 14.7 per cent to a total value of \$183.2 million in 2000.

The decision by the United States to ban imports of raw potatoes from Prince Edward Island due to an isolated incident of potato wart severely affected exports in 2000. The value of unprocessed potato exports to the U.S. was down by 28.1 per cent, to \$25.5 million in 2000 as estimated by Statistics Canada. Exports of raw potatoes represented 10.8 per cent of the value of all exports in 1999.

Figure A.6

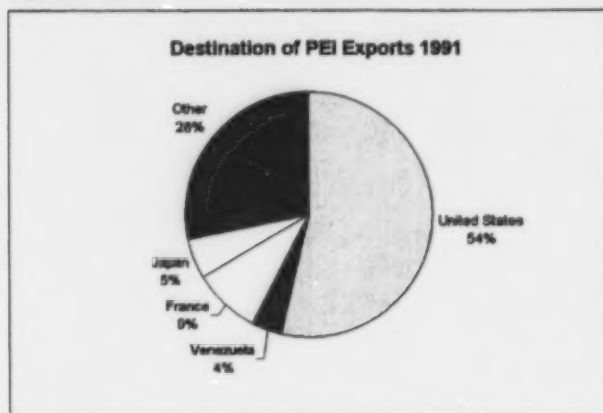
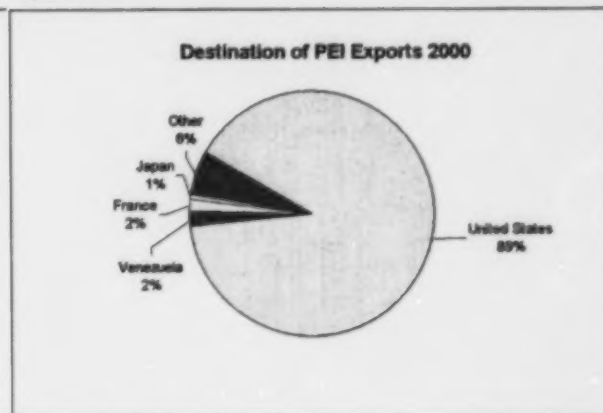


Figure A.7



Source: Statistics Canada, Industry Canada.

A decade of expansion in P.E.I.'s manufacturing industries has resulted in increased international exports, in particular to the United States. Figures A.6 and A.7 show the distribution of P.E.I.'s top export destinations in 1991 compared with 2000. In 1991, exports to the United States represented 54 per cent of P.E.I.'s total export value. In 2000, the value of P.E.I. exports to the United States represented 89 per cent of the total. The impact of a slowdown in the U.S. economy could have a larger impact on P.E.I. exports than during previous economic slowdowns.

Agriculture

The constant dollar GDP for agriculture is estimated to have expanded by 2.8 per cent in 2000. Favourable growing conditions resulting in higher potato production accounted for much of the expansion. Prices for fall harvested potatoes were lower than the previous year. Lower prices combined with the decision by the United States to ban imports of Prince Edward Island potatoes has reduced potato farm cash receipts by 20.5 per cent in 2000 compared to 1999¹.

Table A.1 shows P.E.I.'s farm cash receipts by major commodity group from 1996 to 2000. Farm cash receipts declined 7.5 per cent in 2000 for a value of \$325.9 million. The main cause for this overall decline was a reduction in potato prices.

¹On October 31st the United States closed the border to Prince Edward Island potatoes due to a fungus found in one corner of one field. Extensive scientific testing was undertaken which determined the isolated nature of the fungus. In December of 2000 the province established a \$15 million aid package for potato producers allowing for approximately 10 per cent of the crop to be diverted from the market. Federal aid up to \$14.6 million for potato producers was announced on March 13th 2001. The federal government is currently in discussions with US trade officials to open the border to Island potatoes.

Table A.1. Farm Cash Receipts, P.E.I. \$ Thousands

Year	Crop	Potato	Livestock	Cattle	Hog	Dairy	Direct payments	Total Receipts
1996	163.2	137.5	115.5	27.6	30.6	45.8	12.7	291.3
1997	155.7	128.8	116.9	29.8	29.2	47.1	8.0	280.6
1998	201.6	173.3	109.4	28.7	20.6	49.5	11.1	322.1
1999	227.4	194.8	106.2	24.8	21.9	49.0	18.7	352.3
2000	191.7	154.9	117.3	25.5	29.7	51.0	17.0	325.9
Percent	-15.7	-20.5	10.5	2.8	35.6	4.1	-9.1	-7.5

Improved prices aided the 35.6 per cent increase in hog receipts. Dairy receipts increased by 4.1 per cent and reached an all-time high of \$51 million. Coupled with modest improvements in cattle receipts the livestock sector receipts improved by 10.5 per cent for an all-time high of \$117.3 million in 2000.

Fishing and Forestry

Preliminary estimates show that total fish landings on P.E.I. increased by 6.6 per cent in 2000 totaling 145 million lbs. Lobster landings increased 3.0 per cent to 19 million lbs. Lower lobster prices in 2000 have reduced the total value of the catch by 3.5 per cent to value \$85.7 million compared to 1999. Increased herring landings and new shrimp quotas provided a boost in 2000.

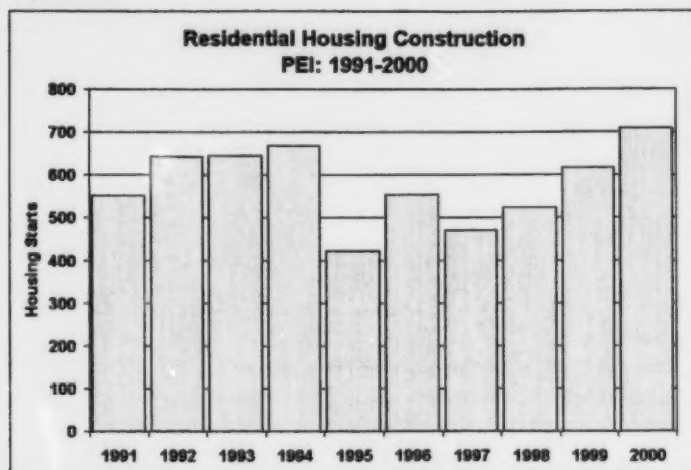
Increased housing construction in North America put upward pressure on prices for forestry products in 2000. However, a slowdown in wood harvested on P.E.I. in 2000 was a result of major upgrades to the Island's largest wood mill. Total harvested volume in 2000 declined by 7.1 per cent compared to 1999 at 794.1 thousand cubic meters

Construction and Equipment Investment

Statistics Canada estimates that construction and equipment investment increased by 3.2 per cent in 2000 to value \$534.2 million. The total value of construction that occurred on P.E.I. in 2000 was \$319.3 million, an increase of 9.8 per cent. The rise in construction value on P.E.I. is evident in a 15.3 per cent increase in residential housing starts, totalling 710 in 2000.

Figure A.8 shows that residential housing starts in 2000 were the highest in a decade. Growth in housing construction resulted from starts in rural areas jumping up by 45 per cent. Statistics Canada estimates that the value of residential construction in 2000 totaled \$161 million for an increase of

Figure A.8



Source: Canada Mortgage and Housing Corporation.

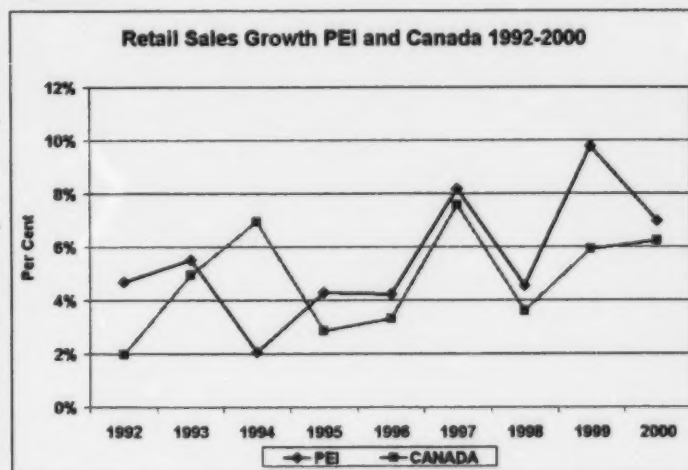
15.7 per cent compared to 1999. The value of non-residential construction, as estimated by Statistics Canada, rose by 4.4 per cent to a value of \$158.3 million. Growth in non-residential construction was highlighted by expansions in retail trade, manufacturing, accommodation and food service structures.

Investment in new machinery and equipment on P.E.I. declined by 5.1 per cent to valued \$215 million in 2000. The value of investment in machinery and equipment on P.E.I. was an all-time high in 1999.

Retail Trade

Buoyed by strong employment gains and rising personal incomes, retail sales rose by 7.2 per cent to measure \$1,239.8 million in 2000. Figure A.9 illustrates that the annual rate of growth retail sales on P.E.I. has outpaced the national average for the past six years. Significant growth of retail store capacity in 2000 has aided the sector. Department store sales increased by 4.6 per cent. The retail industry continued to expand in 2000 with new outlets opened in several centres around P.E.I., and further development is planned in Summerside and Charlottetown.

Figure A.9



Source: Statistics Canada, Retail Trade.

The number of new vehicles sold on P.E.I. in 2000 was the highest in a decade. The number of vehicle units increased by 4.1 per cent in 2000, totaling just under 5,000 units. Sales of new vehicles rose by 3.9 per cent to value \$128.2 million.

Tourism Services

Statistics for the 2000 tourism season, released in December, indicate that numbers were down from 1999 levels. However average spending per tourist increased such that total for pleasure tourism spending remained roughly on-par with the previous year at \$280.0 million. The number of pleasure visitors declined by 6.2 per cent to a total of 1.13 million people. Details show the number of visitors touring by motorcoach was up by 13.1 per cent.

Government

Provincial government current plus capital spending for the fiscal year 2000-2001 is forecast to increase by 7.1 per cent compared to the previous year. Increased spending in the areas of health, education and financial support to agriculture accounted for 70 per cent of the total increase.

"The Province's balanced approach to fiscal planning has not only strengthened its financial profile, but has contributed to the improvement in Prince Edward Island's economic fundamentals."

DBRS July 25, 2000

Prince Edward Island received a positive credit rating review and outlook by the Dominion Bond Rating Service. In the report Prince Edward Island's long term debt was upgraded to "A (low)".

Summary

The Department of Provincial Treasury estimates that constant dollar GDP expanded by 2.9 per cent to value \$3,207 million in 2000. Over the last three years the provincial economy has grown in the order of 3.0 per cent per year. Growth in 2000 was led by vigorous employment gains and rising consumer spending.

The growth in the Island economy during the last three years occurred during a time of very buoyant economic conditions in North America. Current data indicates that the North American economy has slowed this winter. Manufacturing production, primarily in the auto sector, fell during the fourth quarter of 2000 and continued into the early months of 2001. Layoffs in the auto and retailing sectors and falling stock markets have shaken consumer confidence. Private sector forecasters have consequently reduced their estimate of GDP growth for Canada in 2001. Their estimates indicate that the slowdown will persist during the first half of the year and they predict the second half of 2001 will improve.

In light of the current economic conditions the Provincial Treasury predicts that economic expansion on P.E.I. will be in the order of 1.5 to 2 per cent in real terms in 2001.

**SUMMARY STATISTICS
PRINCE EDWARD ISLAND ECONOMY**

	1994	1995	1996	1997	1998	1999	2000
Population on 1 July (in '000s) * . . .	133.7	134.8	136.2	136.9	136.9	137.6	138.9
Personal Income per capita (\$) * . . .	18,194	18,822	18,926	19,022	19,628	20,283	20,864 ¹
As % of Canadian Personal Income . . .	81.7	82.2	81.7	79.8	79.6	79.7	82.0
Employment (in '000s)	55.4	57.3	58.9	59.2	60.4	61.3	64.5
Unemployment rate (%)	17.2	15.0	14.7	15.4	13.8	14.4	12.0
Unemployment Rate - Canada	10.4	9.4	9.6	9.1	8.3	7.6	6.8
CPI - annual change P.E.I. (%)	-0.2	1.6	1.8	1.2	-0.5	1.2	4.1
CPI - annual change (%) Canada	0.2	2.2	1.6	1.6	1.0	1.7	2.7
Retail trade (\$ millions) *	857.2	894.0	931.7	1,007.9	1,053.7	1,156.6	1,239.8
New Motor Vehicle Sales (units)	4,764	4,223	4,120	4,717	4,556	4,802	4,997
Farm Cash Receipts (\$ millions) *	307.5	311.6	291.3	280.6	322.1	352.3	326.0
Potato Receipts (\$millions)	163.7	149.7	137.5	128.8	173.3	194.8	154.9
Lobster Landings (\$ millions)	64.2	78.4	61.7	73.2	80.6	88.8	85.8
Lobster Landings (lbs - millions)	18.6	19.3	18.0	17.8	18.9	18.4	19.1
Housing Starts (units)	669	422	554	470	524	616	710
Investment (\$ millions)	547.3	557.9	463.6	444.5	462.3	454.5	534.3
Manufact. Shipments (\$ millions) *	527.1	686.9	678.8	788.8	937.6	1,109.0	1,182.6
Tourist expenditures (\$ millions) * ²	141.1	156.3	174.5	261.6	274.4	283.3	280.0
International exports (\$ millions) *	289.9	326.2	353.1	434.7	470.2	565.6	679.6
GDP at market prices (\$ millions) *	2,515	2,663	2,814	2,763	2,851	2,994	3,207 ¹

* revised data

Note 1: Provincial Treasury estimate

Note 2: Expenditures do not include business travel

Sources: Statistics Canada; CMHC; Provincial Department of Fisheries, Aquaculture and Environment;
Tourism P.E.I.

BUDGET PAPER B:
FEDERAL FISCAL ISSUES

BUDGET PAPER B: FEDERAL FISCAL ISSUES

During 2000-01 there were intensive negotiations between the Federal Government and provinces on Canada's two largest fiscal transfers, Equalization and the Canada Health and Social Transfer. On September 11, 2000, the Prime Minister made commitments to Premiers to partially restore the federal cutbacks of transfers to Provinces for Health Care, and to lift the ceiling on Equalization.

Ceiling restrictions on the Equalization program however will remain in place during 2001-02 and future years. Given that Equalization is by far Prince Edward Island's largest revenue source we will be particularly impacted by this restriction. Prince Edward Island's ability to provide reasonably comparable public services at competitive rates of taxation is therefore placed at risk.

This Budget Paper examines the Constitutional requirements for fiscal transfers to provinces and describes recent changes to these transfers.

EQUALIZATION

The "Glue That Holds the Federation Together"

Canada's Equalization program is a system of annual payments to less affluent provinces from the Federal Government which should allow them to provide reasonably comparable levels of public services to their residents at reasonably comparable levels of taxation, as stated in the Constitution. In its absence, the less affluent provinces would be constrained to provide a significantly lower standard of provincial public services such as health care, education and transportation than other provinces.

Alternately, tax rates in less affluent provinces would have to be set at markedly elevated levels to deliver comparable services to their residents. This in turn would hamper the ability of local businesses to compete with those in richer provinces or other countries and so impede provincial efforts toward economic growth.

It has long been the position of Equalization receiving provinces that the Federal Government has used its legislative power over the Equalization program to reduce payments to levels that fall short of those required to truly equalize levels of services.

In June 2000, Atlantic Premiers called on the Federal Government to remove the limits on the Equalization formula that essentially keep the program from fully functioning. Specifically, they endorsed a removal of the Equalization ceiling that limits payments to a prescribed budget figure, adoption of a National Average standard for the program rather than the current 5-province standard

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and removal of new technical restrictions introduced in federal legislation in April 1999.

Figure B.1 - Provincial Transfers and the Canadian Constitution

The Canada Act, 1982 dedicates a full section to provincial economic and fiscal equity. Part III of Canada's Constitution is entitled "Equalization and Regional Disparities". Its full text is as follows:

36. (1) Without altering the legislative authority of Parliament or of the provincial legislatures, or the rights of any of them with respect to the exercise of their legislative authority, Parliament and the legislatures, together with the government of Canada and the provincial governments, are committed to

(a) promoting equal opportunities for the well-being of Canadians;

(b) furthering economic development to reduce disparity in opportunities; and

(c) providing essential public services of reasonable quality to all Canadians.

(2) Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

Sections 36.1(a) and 36.1(b) of the Constitution commit the Federal Government to co-operate with provinces to promote equal opportunities, furthering economic development and reducing disparity in opportunities.

Section 36.1(c) provides motivation for the Federal Government's Canada Health and Social Transfer which enforces federal objectives under the Canada Health Act and supports provincial spending on Health, Social Services and Post-secondary Education.

Section 36.2 delivers a clear direction to the Federal Government as to the level of Equalization transfers that it should make to provincial governments.

The Prime Minister's Pledge

The Federal Government introduced legislation in April 1999 that lowered the Equalization ceiling, on total annual payments to provinces from its previous level of \$11.1 billion to \$10 billion, beginning in 1999-2000, to increase with national GDP thereafter.

Premiers met with the Prime Minister on September 11, 2000 to discuss the Canada Health and Social Transfer and the Equalization program. Substantial commitments were made by the Federal Government on CHST transfers to provinces, as well as a more limited but firm commitment from the Prime Minister regarding the ceiling on Equalization payments, which follows:

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"The Prime Minister agreed that necessary steps would be taken to ensure that no ceiling will apply to the 1999-2000 fiscal year. Thereafter, the established Equalization formula will apply, which allows the program to grow up to the rate of growth in GDP."

- Prime Ministerial communique, September 11, 2000

The most recent official federal estimates calculate total Equalization Entitlements for 1999-2000 at \$10.79 billion, with further revisions to follow. Statistics Canada has determined that nominal GDP growth in 2000 was 8.4 per cent. As such, adopting Minister Martin's ceiling proposal would set the 2000-2001 ceiling at \$10.84 billion, which allows program growth in 2000-2001 of only 0.4 percent, much lower than the Prime Minister's commitment of program growth at the rate of GDP.

The Prime Minister's statement commits the Federal Government to a ceiling of at least \$11.7 billion for 2000-2001, not the \$10.84 that has been put in place.

The ceiling levels necessary to meet the Prime Minister's pledge of September 11, 2000 are displayed in the Table B.1, as compared to the amounts proposed by Minister Martin and the ceiling levels under the current and previous federal legislation.

Table B.1 Alternate Ceiling Amounts: 1999-00 to 2003-04

	1999-00	2000-01	2001-02	2002-03	2003-04
<i>Nominal GDP Growth</i>	6.2%	8.4%	5%	5%	5%
Previous Federal Legislation	\$11.1 B	\$12.0 B	\$12.6 B	\$13.2 B	\$13.9 B
Current Federal Legislation	\$10 B	\$10.8 B	\$11.4 B	\$12.0 B	\$12.5 B
September 11, 2000 Pledge	No Ceiling	\$11.7 B *	\$12.3 B	\$12.9 B	\$13.5 B
Minister Martin's Proposal	No Ceiling	\$10.8 B	\$11.4 B	\$12.0 B	\$12.5 B

* The figure of \$11.7 billion equals the 1999-00 total Entitlement of \$10.792 billion escalated by nominal GDP growth thereafter.

The Equalization ceiling was first introduced in 1982. When it applies, payments to provinces are scaled back to the ceiling totals with the national reductions shared equally among receiving provinces, according to population.

Additional to being contrary to the Prime Minister's commitment, Minister Martin's proposal to restrict Equalization payments to provinces is unprecedented in several distinct ways.

The ceiling has been re-based downward as a per cent of GNP twice before, in the program renewals in 1987 and 1992, but the ceiling was not revised downward in the legislative review of 1994. As the federal Auditor General has noted, previous re-basing's occurred in periods of fiscal difficulty for the Federal Government.

In previous legislative reviews the value of the Equalization ceiling fell from...

1.34 per cent of GNP in 1982 to

1.24 per cent of GNP in 1987 to

1.17 per cent of GNP in 1992 to

1.08 per cent of GNP in 1999 or 1.04 per cent of GDP in 1999.

In previous legislative review years the federal (deficit) surplus stood at...

(\$29 billion) in 1982

(\$28 billion) in 1987

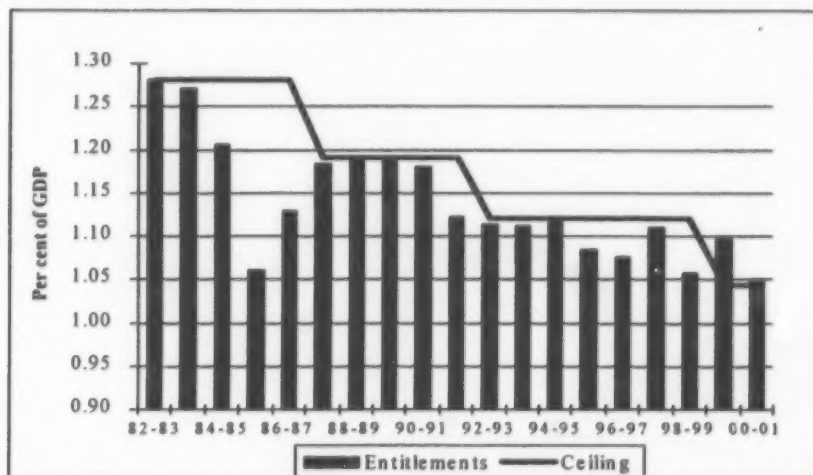
(\$41 billion) in 1992

(\$37 billion) in 1994

\$12 billion in 1999.

The federal decision effectively lowers the ceiling for 2000-01 by \$1.1 billion, the largest ever downward adjustment in the Equalization ceiling, at a time when the Federal Government has the largest surpluses in the history of the country.

**Figure B.2 - Equalization Entitlements and Ceilings as Percentage of GDP:
1982-83 to 2000-01**



As can be seen in Figure B.2, Minister Martin's new ceiling figure for 2000-01 sets the ceiling at a level that is proportionally lower than Equalization Entitlements have been during the last twenty years. In no year from 1982-1983 to 1999-2000 were Equalization Entitlements lower than 1.05 per cent of GDP. But Minister Martin's ceiling for 2000-2001 is set at 1.04 per cent of GDP, which will force entitlements to a lower level, as a percent of GDP, than they have ever been.

How Equalization works

Equalization payments to Provinces are determined by a detailed formula that reflects provincial *fiscal capacity*, or the degree to which each province would be able to finance public services from their own taxation sources and natural resources if each province applied the same tax rate.

The Federal Government has chosen to raise the revenues of Equalization receiving provinces to the average fiscal capacity of five "standard" provinces - Quebec, Ontario, Manitoba, Saskatchewan and British Columbia. Provinces that have a fiscal capacity below this standard receive Equalization transfers while provinces that have a fiscal capacity that is greater than the standard do not receive transfers. The per capita fiscal capacities of provinces are before and after Equalization are shown in Table B.2.

Table B.2 - Per Capita Fiscal Capacities Before and After Equalization: 2001-02

	NF	PE	NS	NB	QC	ON	MB	SK	AB	BC	5-Province Standard	National Average
Before Equalization												
Per Capita Fiscal Capacity (\$)	3,677	3,915	4,333	4,178	5,030	6,301	4,744	5,699	10,099	5,876	5,766	6,061
Percentage of 5-province standard (%)	63.8	67.9	75.1	72.4	87.2	109.3	82.3	98.8	175.1	109.1	100.0	105.1
After Equalization												
Per Capita Fiscal Capacity (\$)	5,766	5,766	5,766	5,766	5,766	6,301	5,766	5,766	10,099	5,876	5,766	6,061
Percentage of National Average (%)	90.0	90.0	90.0	90.0	90.0	98.3	90.0	90.0	157.6	91.7	94.1	100.0

Source: Official Federal Equalization Estimates

The fiscal capacity of the Government of Prince Edward Island from own source revenues is \$3,915 per capita. The current 5-province standard raises provincial revenue to a substantially higher level of \$5,766. A national standard would allow the provincial government to provide services to a standard of \$6,061 per person. For each of its residents, the Government of Alberta is able to provide \$10,099 in government services, at standardized tax rates. The Government of Ontario can provide \$6,301 in government services.

Prince Edward Island's Equalization Entitlement is calculated as the difference between our per capita fiscal capacity and the 5-province standard, as multiplied by our population, or

How Equalization works

Equalization payments to Provinces are determined by a detailed formula that reflects provincial *fiscal capacity*, or the degree to which each province would be able to finance public services from their own taxation sources and natural resources if each province applied the same tax rate.

The Federal Government has chosen to raise the revenues of Equalization receiving provinces to the average fiscal capacity of five "standard" provinces - Quebec, Ontario, Manitoba, Saskatchewan and British Columbia. Provinces that have a fiscal capacity below this standard receive Equalization transfers while provinces that have a fiscal capacity that is greater than the standard do not receive transfers. The per capita fiscal capacities of provinces are before and after Equalization are shown in Table B.2.

Table B.2 - Per Capita Fiscal Capacities Before and After Equalization: 2001-02

	NF	PE	NS	NB	QC	ON	MB	SK	AB	BC	5-Province Standard	National Average
Before Equalization												
Per Capita Fiscal Capacity (\$)	3,677	3,915	4,333	4,178	5,030	6,301	4,744	5,699	10,099	5,876	5,766	6,061
Percentage of 5-province standard (%)	63.8	67.9	75.1	72.4	87.2	109.3	82.3	98.8	175.1	109.1	100.0	105.1
After Equalization												
Per Capita Fiscal Capacity (\$)	5,766	5,766	5,766	5,766	5,766	6,301	5,766	5,766	10,099	5,876	5,766	6,408
Percentage of National Average (%)	90.0	90.0	90.0	90.0	90.0	98.3	90.0	90.0	157.6	91.7	94.1	100.0

Source: Official Federal Equalization Estimates

The fiscal capacity of the Government of Prince Edward Island from own source revenues is \$3,915 per capita. The current 5-province standard raises provincial revenue to a substantially higher level of \$5,766. A national standard would allow the provincial government to provide services to a standard of \$6,061 per person. For each of its residents, the Government of Alberta is able to provide \$10,099 in government services, at standardized tax rates. The Government of Ontario can provide \$6,301 in government services.

Prince Edward Island's Equalization Entitlement is calculated as the difference between our per capita fiscal capacity and the 5-province standard, as multiplied by our population, or

($\$5,766$ less $\$3,915$) multiplied by 138,801 equals $\$256,965,000$.

If the Federal Government were to use a national average standard as the basis for Equalization payments, rather than the 5-province standard, payments to Prince Edward Island would be higher by some \$41 million, using the same method of calculation

($\$6,061$ less $\$3,915$) multiplied by 138,801 equals $\$297,914,000$.

The ceiling causes payments to Equalization receiving provinces to be restricted below even the Five Province Standard.

Equalization Revenues - Prince Edward Island

The revenue forecast for Prince Edward Island for 2001-02 assumes that the ceiling will apply when the early estimates of Equalization are revised. Provincial Treasury estimates that the impact of ceiling restrictions will be to reduce Prince Edward Island's revenues by \$9 million during the next fiscal year.

II. CANADA HEALTH AND SOCIAL TRANSFER

Federal Contributions to Provincial Social Programs

The Canada Health and Social Transfer (CHST) is the largest Federal Government transfer to provinces, with a mandate to support provinces in their provision of health care, social services and post-secondary education. It was introduced in 1995-96 to replace two previous transfer programs with similar mandates, but at a much reduced level of payment. Premiers have consistently called on the Federal Government to re-invest in Canadian social programs by restoring CHST funding to its previous level of \$18.7 billion and escalating that total thereafter, by a rate no less than growth in GDP.

At the meeting of First Ministers on September 11, Prime Minister Chretien committed to restore CHST cash funding to the level of \$18.7 billion with some escalation in the totals thereafter. He declared that some of this funding should go to Early Childhood Development initiatives by provinces and he created a short-term fund to help provinces purchase medical equipment. Table B.3 displays the amounts agreed to.

Table B.3 - New CHST and Health Funding Arrangements
Canada (\$ Billions): 1994-95 and 2000-01 to 2005-06

	1994-95	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Previous CHST cash	18.7	15.5	15.5	15.5	15.5	15.5	15.5
CHST cash increase	-	-	2.5	3.2	3.8	4.4	5.0
Early Childhood Development	-	-	0.3	0.4	0.5	0.5	0.5
Total CHST Cash	18.7	15.5	18.3	19.1	19.8	20.4	21.0
Medical Equipment Fund	-	0.5	0.5	-	-	-	-
Total CHST + Fund	18.7	16.0	18.8	19.1	19.8	20.4	21.0
New Cash Increase		0.5	3.3	3.6	4.3	4.9	5.5
CHST vs 1994-95		-2.7	0.1	0.4	1.1	1.7	2.3

The federal funding announcement fell short of the request of Premiers in two ways. The restoration will not happen until 2001-02 and it is not escalated according to growth in GDP, but according to the schedule determined above. The low rate of escalation adopted by the Federal Government leads to declines in the real per capita value of the CHST, as the totals do not reflect inflation or population growth.

The newly enhanced CHST contains a portion that is to be allocated to Early Childhood Development initiatives by provinces after consultations among Federal and Provincial Ministers responsible for children. This amount is \$300 million in 2001-02, rising to \$500 million in 2003-04.

The value of the new cash to Prince Edward Island is displayed in Table B.4.

Table B.4 - New CHST and Health Funding Arrangements
Prince Edward Island (\$ Millions): 1994-95 and 2000-01 to 2005-06

	1994-95	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Previous CHST cash	89.0	74.0	74.0	74.0	74.0	74.0	74.0
CHST cash increase		-	11.1	14.0	16.6	19.1	21.5
Early Childhood Development		-	1.3	1.8	2.2	2.2	2.2
Total CHST Cash	89.0	74.0	86.4	89.9	92.8	95.3	97.7
Medical Equipment Fund		2.2	2.2	-	-	-	-
Total CHST + Fund	89.0	76.2	88.6	89.8	92.8	95.3	97.7
New Cash Increase		2.2	14.4	15.8	18.8	21.3	23.7
CHST vs 1994-95		-12.8	-0.4	0.8	3.8	6.3	8.7

The Province received \$89 million in transfer payments through CAP and EPF in 1994-95. Prince Edward Island will not see federal social program transfer payments restored to pre-CHST levels until 2002-03.

BUDGET PAPER C:
PERSONAL INCOME TAXES

BUDGET PAPER C: PERSONAL INCOME TAXES

This section details the new Provincial Personal Income Tax system, Tax on Income, which was put into effect January 1, 2001. It also includes a comparison of the new tax regimes in place in 2001 for other provinces as well as the Federal Government.

TAX ON INCOME

The 2000 Provincial Budget indicated that Prince Edward Island would adopt a new approach to calculating provincial income taxes in 2001. The Provincial Personal Income Tax is now calculated from taxable income rather than as a per cent of Federal Tax. The new system, called "Tax on Income", was partially implemented by five provinces in 2000 and fully implemented by four other provinces, including Prince Edward Island, in 2001. Quebec administers its own income taxes separately.

Prior to this change, the Tax Collection Agreement between provinces and the Federal Government provided that Canada Customs and Revenue Agency (CCRA - formerly Revenue Canada) would administer provincial income taxes only if they were expressed as a rate on the Federal Income Tax, with some minor variations. This limited the flexibility of provinces to customize their tax systems to their own needs. Under the new Agreement, Prince Edward Island, along with other provinces, has the flexibility to set provincial rates, income thresholds and credits.

Prince Edward Island's new system will be more transparent, while the benefits of the former system - single administration and common rules - will be retained. All provinces that enter into the new Tax Collection Agreement are required to accept a common definition of taxable income.

Island tax filers will continue to file a single Personal Income Tax Return under the new system. The new Tax on Income return will specify provincial income tax rates, thresholds, and non-refundable credits. Tax filers will see the new forms in the Spring of 2002 when they complete their taxes for the 2001 taxation year. **Canada Customs and Revenue Agency will continue to administer Prince Edward Island's personal income taxes, as in the past.**

Extensive amendments to the Prince Edward Island's *Income Tax Act* were passed in the fall of 2000 to provide for implementation of the Tax on Income system January 1, 2001. The Province will apply three personal income tax rates for the 2001 taxation year - a low rate of 9.8 per cent, a middle rate of 13.8 per cent and a top rate of 16.7 per cent. The rates were derived from the tax on tax rate of 57.5 per cent that was adopted in 2000, as multiplied by the federal rates of 17 per cent, 24 per cent, and 29 per cent.

Table C.1 presents the Federal and Provincial tax rates and thresholds for 2001 for all provinces except Quebec. Quebec has been excluded from the table because its personal income tax system is not comparable with the other provinces.

Table C.1: Federal and Provincial Tax Rates, Thresholds and Surtaxes for Individuals - 2001

	Tax Rates (%)	Thresholds (\$)	Surtax Rates (%)	Surtax Thresholds (\$)
Federal	16.0 22.0 26.0 29.0	7,412 – 30,754 30,755 – 61,509 61,510 – 100,000 100,000 and over		
Newfoundland	10.57 16.16 18.02	7,410 – 29,590 29,591 – 59,180 59,181 and over	9	7,032
Prince Edward Island	9.8 13.8 16.7	7,412 – 30,754 30,755 – 61,509 61,510 and over	10	5,200
Nova Scotia	9.77 14.95 16.67	7,231 – 29,590 29,591 – 59,180 59,181 and over	10	10,000
New Brunswick	9.68 14.82 16.52	7,231 – 29,590 29,591 – 59,180 59,181 and over	8	13,500
Ontario	6.20 9.24 11.16	7,412 – 30,814 30,815 – 61,629 61,630 and over	20 36	3,560 4,491
Manitoba	10.9 16.2 17.5	7,361 – 30,544 30,545 – 61,089 61,090 and over		
Saskatchewan	11.5 13.5 16.0	8,000 – 30,000 30,001 – 60,000 60,001 and over		
Alberta	10.0	12,901 and over		
British Columbia	8.4 11.9 16.7 18.7 19.7	8,000 – 30,484 30,485 – 60,969 60,970 – 70,000 70,001 – 85,000 85,001 and over		

Notes:

1 Minimum threshold amounts refer to each province's Basic Personal Amount.

2 All rates and brackets are current as of March 24, 2001.

The Government of Prince Edward Island also introduced the Low Income Tax Reduction program in 2000, which will continue for the 2001 and future taxation years. In addition, the previously existing Political Contribution Credit and the High-Income Surtax will be maintained.

The 2000 Prince Edward Island Budget committed the Government to pass through the provincial effect of the federal tax reductions that were in the 2000 Federal Budget. This included the indexation of thresholds and non-refundable credits for the 2001 taxation year. Provincial income tax thresholds and non-refundable credit values have been increased to match the Federal increases to account for inflation. The Basic Personal Amount, below which no personal tax is payable, increases from \$7,231 to \$7,412, and the middle income rate is lowered from 25 per cent to 24 per cent, which the Province has mirrored by reducing the provincial middle rate from 14.4 per cent to 13.8 per cent for 2001. Table C.2 presents Prince Edward Island's non-refundable credits values for the 2001 taxation year.

Table C.2: Non-refundable tax credit values for PEI for 2001 tax year

Credit	Value
Basic personal amount	\$7,412
Age amount	\$3,619
<i>Income threshold</i>	<i>\$26,941</i>
Spousal amount	\$6,294
<i>Income threshold</i>	<i>\$629</i>
Equivalent to spouse amount	\$6,294
<i>Income threshold</i>	<i>\$629</i>
Amount for infirm dependants	\$2,446
<i>Income threshold</i>	<i>\$4,966</i>
Pension income amount	\$1,000
Caregiver amount	\$2,446
<i>Income threshold</i>	<i>\$11,953</i>
Disability amount	\$4,400
Disability supplement	\$3,015
Full-time education amount	\$200/month
Part-time education amount	\$60/month
<i>Transfer limit for tuition and education amounts</i>	<i>\$5,000</i>
<i>Medical expense threshold</i>	<i>\$1,678</i>

The incorporation of the tax rates, income thresholds and non-refundable tax credit values shown in Tables C.1 and C.2 reduces the tax payable in 2001 by \$4 million. The Federal Government's Economic Statement and Budget Update on October 18, 2000 included further changes to Federal income tax rates, thresholds, and non-refundable credits for the 2001 Taxation year. Incorporating

these additional measures into the Prince Edward Island Tax on Income system would have cost the Province an additional \$12 million in 2001-02.

Taxation reductions introduced in the 1999 and 2000 Provincial Budgets have kept Prince Edward Island's taxation levels competitive with our Atlantic neighbours, but the Province has not been able to match the more aggressive personal income tax reductions of other provinces, most notably Ontario and Alberta. Table C.3 presents estimates of Federal and Provincial taxes payable for a range of family types and incomes levels in 2001.

Table C.3: Federal and Provincial Personal Income Tax Payable: Examples by Family type and Income for the 2001 Taxation Year

	Example 1 Single person with no children	Example 2 Single parent with one child	Example 3 Family with two children	Example 4 Single senior with no dependants
Income	\$25,000	\$35,000	\$50,000	\$15,000
Basic Federal Tax	\$2,576	\$3,319	\$6,582	\$475
Newfoundland	\$1,702	\$2,352	\$4,752	\$329
Prince Edward Island	\$1,578	\$2,047	\$4,094	\$41
Nova Scotia	\$1,591	\$2,184	\$4,404	\$16
New Brunswick	\$1,576	\$2,164	\$4,365	\$313
Ontario	\$997	\$1,313	\$2,685	\$57
Manitoba	\$1,761	\$2,159	\$4,189	\$32
Saskatchewan	\$1,784	\$2,039	\$3,692	\$226
Alberta	\$1,061	\$706	\$2,183	\$0
British Columbia	\$1,303	\$1,671	\$3,436	\$203
Notes:				
1 Calculations reflect the Prince Edward Island Low Income Tax Reduction and similar credit programs in other provinces.				
2 Calculations reflect provincial tax regimes effective March 24, 2001.				

Source: Provincial Treasury estimate